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The Man Who Markets Silicon Valley
If Corning Glass Is So Smart, Why Isn't It Rich?

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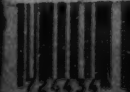
December 13, 1982

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THOSE EXECUTIVE BAILOUT DEALS

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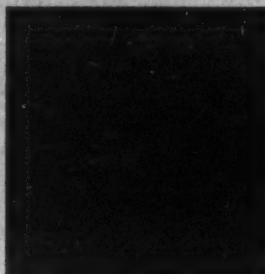


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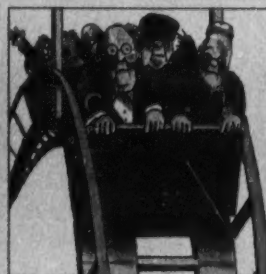
FORTUNE



The landing is soft for executives wearing golden parachutes, but the contracts are controversial. The cover photograph is by Larry Williams, the story is on page 82.



90 Corning



113 Social Security



133 McKenna

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Departments

4 THE EDITOR'S DESK

7 IN THE NEWS

The dim prospects for U.S.-Soviet trade after Brezhnev and the pipeline sanctions, **World Airways'** Ed Daly exits, **Occidental** sells off, **Porsche's** new best-seller, **Britoil** goes public—and more

21 LETTERS TO FORTUNE

On **PUSH** against Busch, video games, Aetna's profits, Reagan stymied, cocaine terminology, and other matters

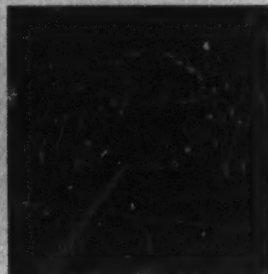
65 FORTUNE FORECAST

Hopeful signs in a flat fourth quarter
Capital spending hibernates

December 13, 1982



148 Satellites



164 Union Carbide

71 KEEPING UP

Gray power and green money, Doug Fraser's dilemmas, boos for queues, and other matters

by Daniel Seligman

189 PERSONAL INVESTING

Options on futures begin to spread

by Mary Greenebaum

97 ON THE ROAD

In search of Mexican meals

by Patricia A. Langan

213 BOOKS AND IDEAS

Thunder on the left

by Daniel Seligman

221 OFFICE HOURS

The self-absorbed executive

by Walter Kiechel III

82

COMPENSATION

Those Executive Bailout Deals *by Ann M. Morrison*

Golden parachutes are fine for the executives who have them. But their value to shareholders is the subject of lively debate.

90

COMPANIES

Corning Glass Shapes Up *by Myron Magnet*

Its profits sagging unbecomingly, the resourceful 131-year-old company has gotten serious about redeploying assets.

113

SOCIAL SECURITY

Heading for the Wrong Solution *by A. F. Ehrbar*

Congress will cope with the immediate crisis, but odds are it will pass up an opportunity to deal with the even bigger dilemma ahead.

122

PUBLIC WORKS

Infrastructure Chic: How to Judge the Jobs Bills *by Allan T. Demaree*

Public works won't employ many unemployed, and jobs programs won't go far toward rebuilding America.

133

PUBLIC RELATIONS

The Man Who Markets Silicon Valley *by Bro Uttal*

Regis McKenna has become the image maker with the golden touch for many California high-tech firms.

148

COMMUNICATIONS

Lowering Skies for the Satellite Business *by John Cooney*

Cable TV programmers are scaling back their plans—and their demand for orbiting antennas.

164

HEADQUARTERS

Union Carbide Takes to the Woods *by Walter McQuade*

The corporate staff has departed Manhattan in favor of rural Connecticut. The new building is great, but expensive. The timing is terrible.

177

STOCKS

Wall Street Yawns over a Big Oil Strike *by Alexander Stuart*

The Santa Maria Basin should ultimately lift Phillips Petroleum's earnings substantially, but investors seem largely indifferent.



COMPENSATION

Those

"Golden parachutes" that compensate managers who lose takeover battles are stirring debate.

by ANN M. MORRISON

The quality of stockholder mercy is not strained. It allows executives with "golden parachutes" to droppeth as the gentle rain after a takeover attempt. These men are twice blessed. They are blessed if they win, for they keep their companies, their positions, and their compensation. They are blessed if they lose, for they still keep their compensation even if not their jobs.

A golden parachute is a special employment agreement, usually including a generous severance package, that protects certain key executives if control of their company changes hands. As the result of more than 1,700 mergers and acquisitions so far this year, on top of 2,395 in 1981, more and more golden parachutes are filling the skies. Ward Howell International, an executive-recruiting firm, recently examined the proxy statements of 665 industrial companies from the FORTUNE 500 and Second 500 lists. The study found that 15% offered parachute provisions to top managers. A FORTUNE survey that included the Ward Howell sample as well as retailing,

*Research associates: Royce D. Wolfe
and Jaclyn Fierman*

financial, service, and other manufacturing companies turned up 155 with golden parachutes. The tables on the following pages are based on this survey. Pearl Meyer, an executive consultant at Handy Associates, a compensation consulting firm, thinks that as many as 30% of major corporations may have these agreements.

Whatever the number, it is sure to grow unless the merger and acquisition craze evaporates. While there's no doubt that golden parachutes are fine for the executives who have them, their value to shareholders is the subject of lively debate.

The principal argument on behalf of golden parachutes is that executives whose company faces a takeover attempt will not be financially at the mercy of the would-be acquirer. So fortified, the reasoning goes, they will be able to weigh any takeover offer—and decide to accept or resist—strictly on its merits to the shareholder. "I truly believe that key executives need to be financially secure in order to strike the very best deal for their shareholders in takeover negotiations," says Meyer, who has sat in on a score of these

Executive Bailout Deals

negotiations. B. Charles Ames, 57, who was chief executive officer of Reliance Electric when Exxon came acquiring in 1979, maintains that having a parachute made him more willing to stand up to the world's largest company. "It gave me the assurance I needed to do what I had to do," he says. First Ames got Exxon to raise its \$65-a-share offer to \$72. (Reliance had been selling in the mid-30s before the two companies began to talk takeover.) Then, when Exxon got bogged down in a Federal Trade Commission complaint that the proposed combination might be anticompetitive, Ames sued to compel Exxon to go ahead with the purchase of shares anyway. The FTC dismissed the complaint, and the shareholders got their money. Last year Ames moved on, voluntarily and without parachute benefits, to become chief executive of Acme-Cleveland, a machine tool company, where he also has change-of-control provisions in his contract.

Stockholders are also supposed to benefit because golden parachutes enable companies to hire and retain good executives. The argument here is that they extend pro-

tection against arbitrary firing, a typical provision of employment contracts, into the uncertain environment of the takeover. Joseph Flom, merger and acquisition specialist with the New York law firm of Skadden Arps Slate Meagher & Flom, says golden parachutes "are so common that a management that refuses them might very well risk losing the services of a number of key employees." Without the security of a parachute successful executives might hesitate to join a firm whose stock they consider seriously underpriced and hence open to raiding. Defenders also argue that golden parachutes can be a useful strategic tool when they increase the price of a takeover so much that raiders have to rethink their plans.

For every defender there's at least one critic. Parachutes are "the latest stupid example" of companies playing follow-the-leader in compensation policy, David J. McLaughlin, national director of Hay Strategic Compensation Services, a management consulting firm, told a Conference Board meeting in October. "Why should we pay these guys more to act the right

way?" he adds. Felix G. Rohatyn, a senior partner in the investment banking firm of Lazard Frères and a prominent corporate matchmaker, serves as an outside director of six corporations, one of which has golden parachutes in place. "I find them philosophically very troublesome," he says. "If an executive needs a multimillion-dollar contract to get his mind clear in a takeover situation, then maybe he should see a psychiatrist."

To some extent, both the rationales of the defenders and the righteous anger of the critics mask the reality that a parachute can be just another item in the complete executive's compensation package, along with his bonus, stock options, special insurance, and early-retirement and pension plans. Like other parts of the package, the arguments for it or against it may be primarily pragmatic: Does it exceed the amount required to attract and keep the right people?

Furthermore, not all parachute agreements are alike. For example, the amount specified may not be as significant as whether the chute opens easily or only in



extreme circumstances. A carefully drawn agreement can guard against some of the most egregious possible damage. All compensation arrangements can be abused. But parachutes do seem especially subject to abuse, both by promising shareholders more than can be delivered and by imposing unjustified costs.

Consider some recent manifestations. In late summer Martin Marietta's management, after girding itself in parachutes, spurned Bendix's offer of \$48 a share for the company (it had been selling at less than \$32 for most of the year) and joined forces with United Technologies to take over Bendix. Martin Marietta will end up as an independent company with a lower book value, higher debt, reduced bond rating, and 39% of its stock held by Allied. It is hard to discern the benefits to the shareholder in this exercise; the guarantee of financial independence that was supposed to ensure clearheadedness among Martin Marietta's top management did not keep that management from fighting like tigers to fend off a raider that rubbed them the wrong way, even though its bid could hardly have left the shareholders worse off than they are.

Bendix shareholders did better. The Bendix management, carried along by the most generous parachute agreements of this takeover season, is selling out to Allied at \$85, up from \$52.50 when it all began. But William M. Agee, 44, the chief executive of Bendix, has said publicly that he would not have done anything differently had he not had a golden parachute. Then why did he have one?

Asked to justify his \$4-million bail-out agreement—made during his takeover battle—Agee has usually responded that he didn't ask for a golden parachute but was certainly glad to have it. "The outside board was kind enough to give me one," he told a New York audience in October.

"Bullshit," says one of those outside directors. "The golden parachutes were initi-

LARGEST INDUSTRIALS WITH PARACHUTES

COMPANY	FORTUNE 500 RANK	PAID IN \$ MILLION
Phillips Petroleum	15	\$150
IBM	17	\$125
United Technologies	20	\$125
Rockwell Int'l	26	\$100
Allied	38	\$90
International Paper	77	\$80
American Can	81	\$60
Bendix	82	\$60
Brady's Tire & Rubber	88	\$50
General Steel	94	\$50

Du Pont's acquisition of Conoco—once No. 14 among the FORTUNE 500—proved last year that even elephantine companies can be hunted down and captured. Still it's hard to imagine a raider wily and determined enough to wrest United Technologies from its expertly acquisitive chief executive, Harry Gray.

ated by management." In fact, he adds, the outside directors watered down management's proposals for the contract. The provisions now say that an executive cannot bail out unless he has suffered a "diminution in compensation or position" in the reorganized company. Originally there had been no such qualification. Though this is not likely to tie Agee to Allied (for his position will almost surely be diminished), it probably will encourage most of the 15 other officers protected by parachutes to stay. Another change imposed by the board requires that an executive who bails out and finds another job that pays as much will get full compensation for only 18 months, even though his contract might last for three or five years.

Free-falling shareholders

At Brunswick Corp., as at Martin Marietta, managers with parachutes left stockholders in a free-fall. In January Whittaker

Corp., a health care conglomerate, announced a hostile tender offer for Brunswick, a company that makes pumps, valves, outboard motors, bowling alley equipment and, at the time, had a thriving medical service business. The Brunswick management was thoroughly takeover-proof. Chairman K. Brooks Abernathy, 64, had a parachute protecting his salary through 1983 if the company changed ownership; ten of his top executives had agreements good for up to five years' pay; and the Brunswick outside directors with five years of service, those stalwart representatives of the shareholders, had guaranteed themselves a lifetime of fees—\$22,000 per year. Brunswick not only spurned Whittaker's \$26.50-a-share offer, it also sold off the object of Whittaker's desire, the medical unit, to American Home Products. When the dust settled in March, the Brunswick shareholders were left with a smaller, weaker company whose shares traded at half the level of the Whittaker offer.

Golden parachutes did not prevent executives of St. Joe Minerals from pursuing what a federal district judge called "a scorched-earth policy" in their efforts to fend off a hostile bid from Seagram last year. As soon as Seagram posted a bid of \$45 a share (St. Joe was then selling for \$25) its top executives wrapped themselves in parachutes, and the company undertook a defensive strategy that included buying back 25% of its stock at \$60 a share, selling off a Canadian oil and gas subsidiary, and actively seeking other bidders. If all this failed, the St. Joe management said it would "pursue liquidation," and sell off its pieces to the highest bidder. Seagram went to court to restrain St. Joe from going ahead. Judge Milton Pollack not only excoriated St. Joe's strategy but declared that management's policy of awarding itself golden parachutes left "an aroma in the courtroom as if someone had thrown a skunk in the jury box."

In other cases top management seems to



have assigned a higher priority to assuring the quality of its parachutes than to maneuvering on behalf of the shareholders. Soon after Seagram began making overtures in May 1981, Conoco called a special board meeting. The first item on the agenda, according to one person who saw it, was not what the stock activity meant for the shareholders but how to put in parachutes.

Taking flight at Mohasco

The existence of golden parachutes is not hard to spot in proxy statements. The key is usually the phrase "in the event of a change in control," almost always found in one of the paragraphs following the table listing the company's highest-paid officers. Parachutes need a change of control to open them—often the acquisition of 40% or more of a company's stock, but sometimes less. Executives of UNC Resources, formerly United Nuclear Corp., have parachutes that can operate when anyone acquires as little as 15% of the company.

Low thresholds present at least two potential problems. If, say, Chairman Charles G. Bluhdorn of Gulf & Western, which holds stock in at least a dozen companies, woke up one morning with a yen for a little more stock of a certain company, he could unintentionally set off a flock of parachuting executives by noon. (Intentionally or not, when Gulf & Western's stake in Mohasco, an interior furnishings company, went over the magic 20% mark, four executives bailed out with some \$800,000 among them.) On the other hand, if a 20% change in ownership is a clear signal that a hostile bid is under way, one would think that a company would want all hands at the battle stations, not heading for the escape hatch.

The proxy statement details what the executive should get after control has changed. If he or she is "involuntarily terminated"—sacked—the executive is usually entitled to his annual base salary and

MOST GENEROUS AGREEMENTS

COMPANY	CHIEF EXECUTIVE	AMOUNT in millions
American Family	John Ames	\$7.4
SK Technologies ¹	Robert Jensen	\$7.3
Corson ²	Ralph Bailey	\$4.1
Bendix ³	William Agos	\$4.0
Whelan ⁴	Robert Davis	\$4.0
Allied	Edward Hennessy	\$3.9
Perennial	J. Hugh Madlitz	\$3.7
American Medical Int'l	Rayce Danner	\$3.1
Vine Inc.	J. Richard Munro	\$3.0
Calmar	John Macomber	\$2.8
Samark	Donald Kelly	\$2.4
Hanna Mining	Robert Anderson	\$2.3

¹Acquired by Penn Central, 1981. ²Acquired by Du Pont, 1981. ³Acquisition by Allied pending. ⁴Acquired by Morton Norwich, 1982. *Fortune estimates.

Of the 155 companies with parachute plans FORTUNE scrutinized, these offered the most protection.

bonus for a number of years, plus automatic vesting of his retirement plan, easing of his stock-option restrictions, and continuation of his medical benefits. The bonus part of the package is sometimes defined as the maximum amount for which he might be eligible. An executive who never hit the target while he was employed could possibly end up making more money not working for the company than he ever did while he was there.

How long does the contract last? Most compensation consultants think that two years of total annual compensation gives an executive enough time and money to plant himself somewhere else. But the recruiting division of Handy Associates figures that even in these depressed days a top executive can usually find a new job in eight months or so. That means that for 16 months, a bailed-out officer can double-dip. In only a few of the 155 parachute-equipped companies whose proxy state-

ments FORTUNE examined for this story are executives required to give back some portion of their severance benefits if they find another job. Bucyrus-Erie, Pullman, and, of course, Bendix are among them. In the FORTUNE survey, 55% of the companies guarantee executives' salaries for longer than two years.

Some proxy statements spell out circumstances under which an executive could resign but still reap his benefits. The reasoning is that a new management could do a lot of things to force him out—move his desk to the lobby, make him the night elevator operator, transfer him to Two-dot, Montana—instead of firing him with severance.

In some cases, though, executives can receive all those benefits if they simply decide to leave the company for no particular reason after a change in control. To be sure, there may be a catch—usually the executive's acknowledgment that he cannot "in good faith" continue to fulfill the responsibilities for which he is employed. Charles Ames of Reliance

has one of these good-faith clauses in his current contract at Acme-Cleveland. "I'm not sure what it means," says Ames. "I only know it puts a hell of a burden of proof on me." No one else knows what it means either, or how great that good-faith burden actually is. As more golden parachute cases come to court, presumably we'll all find out.

In the meantime golden parachutes are most likely to encourage executives to stay around for the critical transition period after their company is acquired if the agreements clearly reward them for the effort. Hudson Bay Oil & Gas, acquired by Dome Petroleum last year, offered standard parachutes guaranteeing up to three years' salary to 12 officers whose employment could be voluntarily or involuntarily terminated within two years after the change of control. Anyone who stuck it out beyond that time automatically got an extra year's salary.

continued

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FORTUNE December 13, 1982 85



MONEY-LOSING COMPANIES WITH PARACHUTES

CORPORATION	NET LOSS in millions
Shell Resources & Chemical	\$77.8
I. & L. Industries	\$62.7
Alle-Chalmers	\$38.5
Publicker Industries	\$24.5
Pulaski Brewing	\$23.8
Great Western Financial	\$15.4
American Batteries	\$ 7.1
Wanaburg	\$ 6.5
Codomo Industries	\$ 5.7
AVX	\$ 2.6
Idoro	\$ 1.3

Golden parachutes are not necessarily awarded because of outstanding performance. Losses for the companies shown are for the 1981 fiscal year.

What the shareholder will not find in the proxy statement—or anywhere else—is evidence that the golden parachute necessarily serves its stated purpose in a takeover battle. Of course, these agreements are relatively recent and the variety of examples still limited. In some cases a plethora of golden parachutes can indeed make a takeover more expensive for the acquirer—any company wanting to put a bear hug on Beneficial Corp. would have to figure out how to get its arms around all 234 golden-parachuted employees, each of whom could walk away from the merged company with three beneficent years of salary guaranteed. But even Martin Lipton, the takeover strategist with the New York law firm of Wachtell Lipton Rosen & Katz, claims that a reasonable number of parachutes has “no deterrent effect whatsoever on takeover attempts.” In most deals the cost of the employment contracts works out to less than 1% of the total transaction. Lipton, it should be observed, is not un-

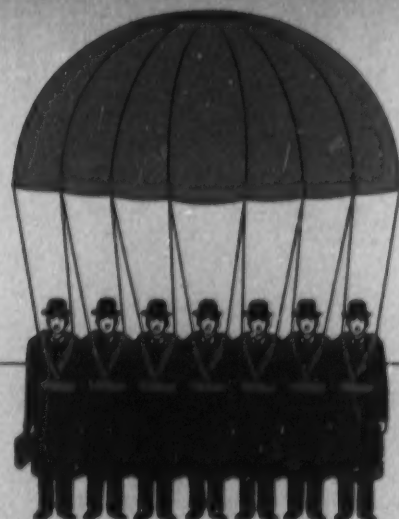
sympathetic to golden parachutes. Noting that lawyers and investment bankers are well paid in takeover deals, he says: “I don’t think that it’s terribly wrong for executives with years and years of building the company to be paid a few million too.”

The urge to keep control

A golden parachute can certainly help mitigate the damage a takeover may do to an executive’s pride, prestige, and power. The taken-over chief executive can rather suddenly find that he no longer is able to commandeer the company airplane, appropriate the best office, or have the last word. These losses may be harder to take than a loss in salary. But management’s tenacity in cases like Martin Marietta and Brunswick suggests that no force acts more powerfully on executive ego than the urge to preserve control and repel challengers, no matter what the cost.

Losing a job is a risk of doing business, of course, and there is nothing new about compensating executives for living with that risk. What troubles the critics of golden parachutes is the thought that they can amount to overcompensation. “What we’re seeing now is more and more reward for less and less risk,” says Graef Crystal, a compensation consultant with Towers Perrin Forster & Crosby. If a manager’s record is poor or indifferent, he certainly could use a parachute, but why is he entitled to one? If he is a good performer he may well be retained, even promoted, by the acquiring company, despite the personal bitterness often generated in takeover battles. Hicks B. Waldron, 59, chief executive of Heublein, has, since his company’s October acquisition by R.J. Reynolds, been widely rumored to be a possible successor to J. Faul Sticht, 65, chairman of RJR. Neither side brought parachutes to that merger.

Even if an executive is redundant, bungling, and has made a lot of enemies during the takeover fight, he is not without resources. Almost all top executives have stock in their companies, which should run up in the course of the takeover. Ames of Reliance made some \$3.8 million on his



MOST PEOPLE COVERED

COMPANY	PARACHUTED EXECUTIVES
Beneficial	234
Kimberly-Clark	80
United Technologies	64
Soft Industries	56
Martin Marietta	29
Mapco	28
AMF	21
Endert	20

Critics complain that golden parachutes protect only a chosen few at the top, leaving the troops below defenseless and demoralized. These companies may be trying to remedy the problem. In any case, a would-be acquirer of a company high on this list would have an expensive series of payments to make.

stock and options when Exxon took control. Many companies have introduced accelerated vesting of stock option plans that are triggered by a change in control. Under these, an executive can realize the cash difference between his option price and the selling price of the stock without having to purchase the stock. Walter McL. Robinson, 59, vice chairman of NLT, the Nashville-based insurance and entertainment company (Grand Ole Opry) that was acquired by American General Corp. early this month, realized almost \$390,000 through this plan. He has said that he will take the money and forgo American General’s offer of a three-year employment contract. Neither he nor any other NLT executive has a parachute.

Relatively few executives with golden parachutes have pulled their rip cords. Only a few lawsuits concerning golden parachutes have come before the courts, and none has been resolved. Stockholders of both Conoco and Bendix have sued their

The case of Gulf Resources & Chemical is more complicated. This spring a dissident Gulf Resources shareholder, British-born investor Alan Clore, waged a proxy fight for control of the ailing company. The Gulf Resources board already had parachutes in place covering 21 officers and employees and amounting to \$13 million—a bit more than the company reported in income from continuing operations last year. In fact, because the company closed a large mining operation, it reported a \$77.9-million net loss for 1981. Clore won the proxy battle and fired eight top officers; the chief executive resigned the same day. A stockholder has filed suit in Delaware arguing that the company shouldn't have to pay their severance agreements because the stockholders had no say in them. In September Clore offered the fired executives one year's salary and bonuses if they would withdraw from the suit. They refused and took their claims to court; a decision is not expected for a year. Then he offered each of the ten executives still employed a three-year contract in return for dropping potential severance claims against Gulf Resources. They accepted.

20% change of ownership triggers benefits

COMPANY	LARGEST STOCKHOLDERS	PERCENTAGE OWNED
Johnson	Shell & Kravson	22.2
Am	Raymond National	18.9
Julius	Richard A. Weinbaum	18.5
J. B. Ward	Intertec World Paper	14.3
Control Data	Morgan (J.P.) & Co.	9.9
Adams	Wells & Co.	9.0
Amgen	Investment Mgt. & Research	7.0
Johnson-Ross	T. Payne Fries Associates	5.0
Gray Group	Shelby Ross & Sherman	5.0
Investment Securities	No single shareholder owns 5% or more of the company's common stock	
Investment Services		
Investment Securities		
Investment Services		

Then there's the case of Nick A. Caporella, Victor Posner, and Burnup & Sims. In 1976 Caporella, who is 46, became the chief executive officer of B&S, a Florida-based miniconglomerate that designs and installs telephone and cable television systems and bottles Dr Pepper and Pepsi. Also in 1976 Victor Posner, the Miami Beach-based industrial scavenger, acquired 14% of Burnup & Sims. Since then Burnup & Sims' sales and profits have moved up smartly (in fiscal 1982 the company earned \$9.3 million on \$237 million), and Posner's investment moved up with it. In 1979 the board approved a golden parachute for Caporella that would pay a lump sum of 300% of his base salary, plus accelerated stock options, if any party acquired 29% of the common stock. By October of this year Posner had acquired more than 30% of the company, and Caporella resigned, taking 17 executives and \$4 million in severance and stock options with him. Five stockholders then sued Caporella.

Shareholder actions seem unlikely to curb the parachute profusion, even though criticism is intensifying. But recent excesses may be creating a management backlash. In a survey of 170 chairmen of major corporations by the *Directorship* newsletter, 101 respondents said that their companies did not have golden parachute arrangements and did not expect to have them. A chief executive of a company with golden parachutes gave their classic defense: "If we are threatened by a takeover not approved by our board, we want our

Still, shareholders would be well advised to pay more attention to what managements do than to what they say. When T. Boone Pickens Jr., 54, Mesa Petroleum's chief executive, was asked about golden parachutes at a New York seminar on corporate reorganization in October, he replied, "My feeling, very simply, is to forget golden parachutes. I don't like them. I don't even like the tone of them."

Presumably, he was not referring to his own golden parachute, which, according to Mesa's 1982 proxy statement, would provide Pickens, at his discretion, "a termination fee equal to twice his base salary"—which last year was about \$416,000—in the event of a change in control not approved by his board.

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Corporations at various removes from the glow of public esteem are symbolized in Eugene Mihaesco's cover illustration. For the results of a FORTUNE survey of 200 companies' reputations, see page 34.

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FORTUNE

SURVEY

Ranking Corporate Reputations *by Claire Makin*

34

BANKING

The Maverick Who Yelled Foul at Citibank *by Roy Rowan*

46

PLANNING

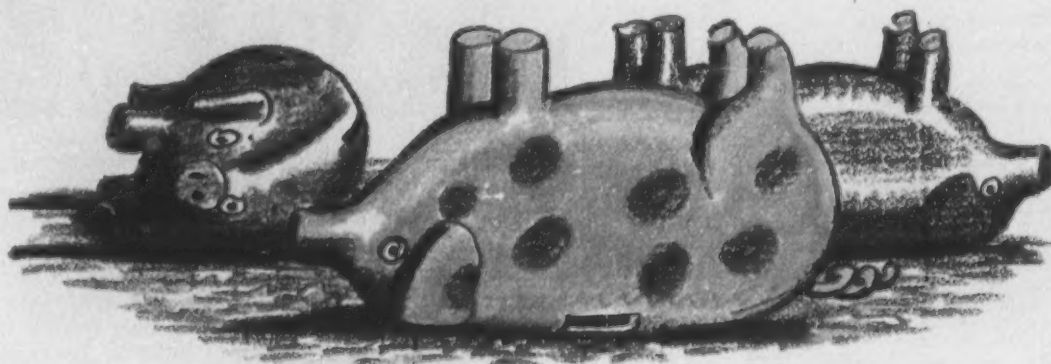
How Japan Manages Declining Industries *by Edward Boyer*

58

THE YEAR

Coups and Catastrophes *by Ann M. Morrison*

65



MERGERS

The Morning After at Phibro-Salomon *by Carol J. Loomis*

74

HIGH-FLIERS

Warner's Fall from Grace *by Anne B. Pillsbury*

82

MANAGEMENT

How Dome Petroleum Got Crunched *by Shawn Tully*

84

COMPANIES

General Foods Goes Back to Growing *by Jeremy Main*

92

4 THE EDITOR'S DESK

6 IN THE NEWS

Brazil and Mexico look to the IMF, Morgan Stanley's new president, ABC insures its Olympics coverage, Westinghouse joins the robot wars, Fuqua shrinks and thrives—and more.

13 LETTERS TO FORTUNE

On infrastructure chic, more golden parachutes, Carbide's commune, and other matters.

17 THE WASHINGTON CONNECTION

Rumblings of reregulation, the dynamic duo of Atari Democracy—and more.

25 FORTUNE FORECAST

The next 18 months: A slow-starting but long-running recovery.

31 KEEPING UP

By Daniel Seligman

97 PERSONAL INVESTING

Gauging the market's prospects. By Mc ry Greenebaum

103 ON THE ROAD

Breakfast in New York. By Walter McQuade

113 BOOKS AND IDEAS

The case against antitrust. By Robert Lubar

119 OFFICE HOURS

In defense of the office party. By Walter Kiechel III

RANKING CORPORATE REPUTATIONS

SURVEY/CLAIRE MAKIN

■ Among 200 of the largest U.S. corporations, IBM, the world's biggest computer company, is the most admired, with Hewlett-Packard, another high-tech company, close behind. The least admired is International Harvester, whose trucks and combines haven't been going anywhere. These judgments emerge from a FORTUNE survey of nearly 6,000 executives, outside directors, and financial analysts, who were asked to rate the reputations of the ten largest companies in America's 20 largest industries.

FORTUNE's survey, completed in September, drew responses from 51% of those polled—an unusually good return, according to polling professionals. The respondents in 20 groups, one for each industry, were asked to rate only companies in their own industry (or, in the case of security analysts, an industry they follow), using a scale of 0 (poor) to 10 (excellent). The industries represented in the survey are the largest in FORTUNE's directories of U.S. industrial and non-industrial corporations.

The companies in each industry group were rated on eight key attributes of reputation: quality of management; quality of products or services; innovativeness; value as a long-term investment; financial soundness; ability to attract, develop, and keep talented people; community and environmental responsibility; and use of corporate assets. The companies that rated highest and lowest among the

200 for each attribute are listed on pages 38 and 39. Tables on pages 40 to 44 show how each company ranks within its industry; the overall score for each company is the average of its ratings on all eight attributes.

HEWLETT-PACKARD and IBM each emerged with an average score of 8.26 out of the possible 10—higher than any of the other companies in the survey. But there was a tie breaker. IBM was accorded the top spot because it rated higher than Hewlett-Packard in five of the eight measures of reputation, most notably in perceptions of financial soundness, in which IBM scored a remarkable 9.21. That was the closest any company came to a 10 for any attribute.

FORTUNE's survey was conducted before someone packed cyanide into Tylenol capsules in Chicago, killing seven people. But the incident seems

unlikely to have any lasting effect on the reputation of Johnson & Johnson, Tylenol's maker. One indicator: after an initial seven-point drop, Johnson & Johnson's stock returned to pre-crisis levels and in early December reached \$49 a share, a record high.

Well-thought-of companies generally do well in financial terms too, and those with poor reputations do poorly. Four companies on the honor roll—IBM, GE, Merck, and A&T—have triple-A bond ratings. Three others—SmithKline Beckman, General Mills, and Digital Equipment—are rated double-A. (Hewlett-Packard, Johnson & Johnson, and Eastman Kodak carry little debt.) The median return on shareholders' equity of the ten most-admired companies was an impressive 18.2% in 1981, vs. 4.5% for the ten least admired. The 1981 median for the FORTUNE 500 was 13.8%.

The most-admired companies' median net profit margin in 1981 was



AT THE TOP AND BOTTOM OF THE 200 COMPANIES

The most admired

The 200 corporations in FORTUNE's survey were rated by their peers—executives and outside directors in their industries—and those who peer at them—financial analysts specializing in their industries. The scores are averages of each company's ratings on eight key attributes of reputation.

Rank	Company	Industry group	Score
1	IBM	Office equipment, computers	8.26 ¹
2	Hewlett-Packard	Precision instruments	8.26 ¹
3	Johnson & Johnson	Pharmaceuticals	8.14
4	Eastman Kodak	Precision instruments	8.02
5	Merck	Pharmaceuticals	7.92
6	AT&T	Utilities	7.91
7	Digital Equipment	Office equipment, computers	7.70
8	SmithKline Beckman	Pharmaceuticals	7.66
9	General Electric	Electronics, appliances	7.54
10	General Mills	Food	7.52

The least admired

Most of the companies at the bottom of the 200 have the bad luck to be in troubled industries, such as motor vehicles, steel, or forest products. But how their peers see their financial soundness and management quality has a lot to do with the ratings.

Rank	Company	Industry group	Score
200	International Harvester	Motor vehicles and parts	2.62
199	A&P	Retailing	3.17
198	American Motors	Motor vehicles and parts	3.78 ²
197	Pan Am	Transportation	3.78 ²
196	F.W. Woolworth	Retailing	4.09
195	Crown Zellerbach	Forest products	4.32
194	RCA	Electronics, appliances	4.50
193	Republic Steel	Metal manufacturing	4.57
192	Tesoro Petroleum	Diversified services	4.59
191	National Steel	Metal manufacturing	4.62

¹Tie. IBM scores higher than Hewlett-Packard in five of eight attributes.

²Tie. American Motors scores lower than Pan Am in five of eight attributes.

A company well respected for one attribute is likely to get good marks across the board.

10.7% of sales, more than double the FORTUNE 500 median of 4.6%. The least-admired companies had a melancholy median net profit margin of 0.9%. Price-earnings multiples followed the same pattern—a median hovering around 12 for the stocks of companies at the top and under 5 for their poor relations, only five of which are expected to turn a profit in 1982.

ONLY in total return to investors, a measure combining price appreciation and dividend yield and therefore important to shareholders, did the highly regarded companies fail to perform outstandingly well. Their average annual ten-year median was 7.19%—surprisingly lower than the ten-year median of 8.52% for the FORTUNE 500. But the companies with poor reputations came in with a dismal *negative* return of 1.87% for the ten years.

In financial performance, Smith-Kline Beckman (1981 sales: \$2 billion) is the brightest of the stars, with a 1981 return on equity of 30.2%, a profit margin of 18.6%, and a ten-year total return to investors of 20.18% annually. Pan Am was the overall loser here; it was in the red in 1981 and had a ten-year total return of minus 15.74%.

A strong position in a high-growth market naturally adds points to a company's reputation, whether the market is health care products or computers. Comments Chief Executive John Opel of IBM, "Certainly we chose the right industry to be in."

All the companies on the honor roll have chief executives who have been with their companies at least 20 years. In sharp contrast, eight of the ten companies rated lowest have hired, fired, or otherwise rearranged top managements in the past 18 months. Respondents in FORTUNE's survey seemed to equate poor corporate performance with poor management—although sometimes it's hard to establish which comes first. Wonders a Wall Street analyst who follows the ailing forest products industry, "Can shuffling the deck achieve anything in a capital-intensive industry?"

Almost all the high-rated companies stress motivating—and retaining—

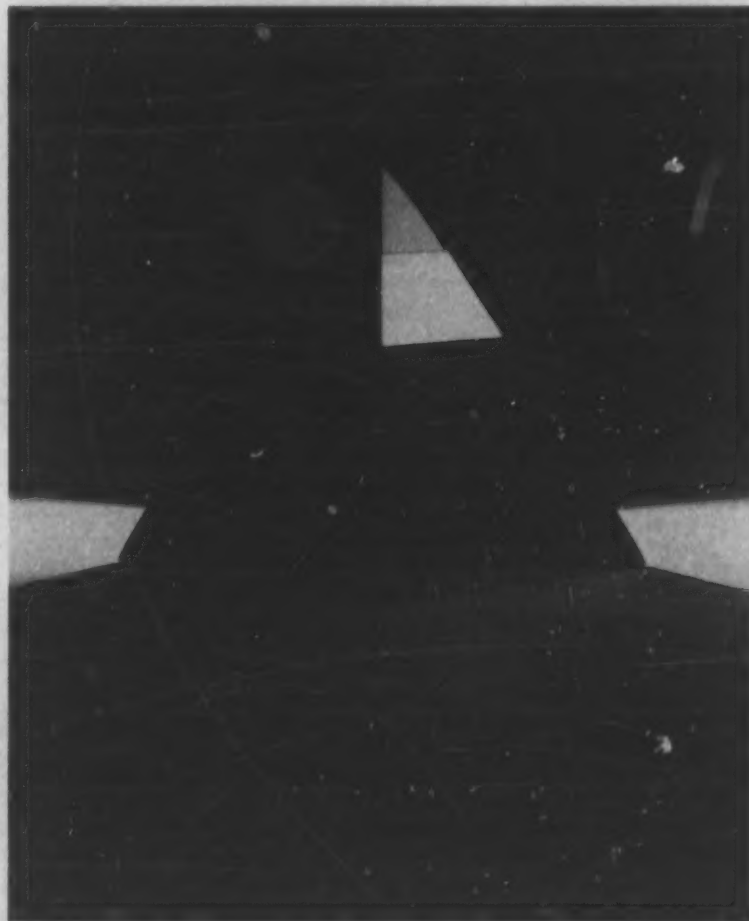
their most promising managers by allowing them freedom to make decisions within a few broad policy guidelines. Six of the companies—GE, Digital Equipment, Hewlett-Packard, Johnson & Johnson, SmithKline Beckman, and General Mills—pride themselves on being decentralized. "Decentralization is terribly important," says Bruce Atwater, chief executive of General Mills. "Good people won't work within a highly structured system—you've got to give them rein."

Corporations at the top of the list rank high in all eight key attributes—a company well respected for one is likely to get good marks across the board:

IBM was accorded the highest rating for quality of management, 8.86, given any company in the survey. It was also No. 1 for value as a long-term investment and for financial soundness, while ranking second in ability to

attract, develop, and keep talented people; community and environmental responsibility; and wise use of corporate assets. In quality of products and innovativeness IBM fell from the top rank; in those categories it ranked eighth and 18th respectively.

Hewlett-Packard, No. 2, scored 8.29 for its way with people, the only attribute for which it scored first among the 200. But it ranked among the top three companies for four other attributes. For innovativeness, the \$4.3-billion-a-year manufacturer of minicomputers and precision instruments rates higher than any other industrial company—8.46. (Citicorp and Merrill Lynch, both non-industrials, scored higher.) Hewlett-Packard's highest score was for quality of products, though Boeing and Caterpillar Tractor came out slightly better in this respect. Hewlett-Packard also has a



sterling reputation for management (8.76) and for investment value (7.99). In both respects it was regarded as second only to IBM.

Johnson & Johnson, No. 3, ranks just behind Hewlett-Packard in quality of management and value as a long-term investment. The company was also judged among the top three for use of corporate assets, financial soundness, and community and environmental responsibility.

Eastman Kodak attained the No. 4 spot while scoring first among the 200—with a rating of 8.32—only for community and environmental responsibility. The company's highest rating, 8.69, was for the quality of its products; it just missed being among the top three for this attribute.

Merck, No. 5 overall, earns higher marks for innovativeness—7.61—than any other pharmaceutical company; it is renowned as one of the heaviest R&D investors among the big-spending drug manufacturers. The company ties IBM in reputation for dealing with employees, scoring 8.15.

AT&T, No. 6, achieved its highest rating, 8.63, for quality of service. Thanks to Bell Laboratories, AT&T was rated 8.01 for innovativeness. Once a lead-footed behemoth in a monopolistic world, the company is trying to dance to the tune of competition, and FORTUNE's respondents rate AT&T's management highly, at 8.27.

Digital Equipment, No. 7, ranks second only to IBM in the office equipment group. "Digital is perceived," says Michael Geran, vice president and computer-industry analyst at E.F. Hutton, "as the company that founded and continues to dominate the mini-computer market." For innovativeness, Digital gets a 7.86, eighth among the 200 companies surveyed. It was rated 8.18 for management and 8.13 for products, both outstanding scores.

SmithKline Beckman, No. 8, was once just lackluster Smith Kline & French. But the company's ulcer remedy, Tagamet, introduced in the U.S. in 1977, has made it golden. The drug's 1982 sales, estimated at over \$800 million, about equaled SmithKline's entire 1977 revenues. Tagamet accounts for some 60% of profits. A merger in early 1982 with Beckman

Instruments, a manufacturer of medical diagnostic equipment, further polished the company's reputation. Pharmaceutical companies all rate highly for the soundness of their financial positions; SmithKline rated 8.54, fourth among the 200.

General Electric, No. 9, was beaten out, though just barely, by IBM, Hewlett-Packard, Johnson & Johnson, and J.P. Morgan in the ranking for management. GE's rating was 8.42. That verdict is a little surprising: former Chief Executive Reginald Jones was chosen best C.E.O. and GE the best-managed company in a poll of FORTUNE 500 chief executives (see "C.E.O.s Pick the Best C.E.O.s," FORTUNE, May 4, 1981). Jones's successor, Jack Welch, is faced with the challenge of retaining the company's reputation for financial stability—it got an excellent rating of 8.32—while moving GE ahead in high-growth markets such as microelectronics. This effort might perk up the company's reputation for innovation, a run-of-the-mill 6.77. Welch feels GE doesn't always get the credit it deserves: "My inward feeling is that we are leaner, more demanding, and more agile than we are perceived to be from the outside."

General Mills, No. 10, is one of the top-ranked companies that was not rated first among the 200 for any single attribute of reputation. (The others: Merck, AT&T, Digital Equipment, SmithKline Beckman, GE.) The \$5.3-billion-a-year packaged-foods giant stays ahead of the competition by plowing back cash generated by such brands as 103-year-old Gold Medal flour into high-growth cash users like its Red Lobster restaurant chain. The maker of Wheaties, "Breakfast of Champions," rates 7.64 for financial soundness, ahead of 181 of the companies in the survey.

LEAST-ADMIRED big companies are ruled by uncertainty—about management, markets, and earnings. **International Harvester's** ranking as No. 200 is probably predictable, given its lingering flirtation with bankruptcy. The company's management changed in May, when Archie McCordell was replaced as chief executive,

but it still gets a dismal rating of 2.58. This is a good deal better than Harvester's score for financial soundness, a barely perceptible 0.6.

Great Atlantic & Pacific Tea, No. 199, has been staggering for years. A&P last paid a dividend in 1978. Managements changed and so did ownership. The huge chain (1981 sales: \$7 billion) is now controlled by the Tengelmann Group, a German retailer. A&P landed among the three lowest-rated companies in all eight of the attributes of reputation surveyed except long-term investment value and financial soundness, in both of which it came in fourth from last. Trimming unprofitable stores and a third of its work force may have put A&P in the black in 1982 for the first year since 1977.

American Motors, No. 198, was slow to upgrade the fuel efficiency of its cars, though it had been the first major U.S. carmaker to trumpet the thought that small is beautiful. The company ranks a low 4.66 for product quality. (**Chrysler**, No. 189 overall, with an average score of 4.85, just escaped a place among the ten least-admired companies.)

Pan Am, No. 197, which had the same overall score as American Motors, 3.78, rated higher than the automaker on five attributes; that was the tie breaker. Pan Am's lowest rating, 2.07, was for financial soundness; it has been selling off everything from its Manhattan building (\$400 million) to Intercontinental Hotels (\$500 million) in a desperate effort to stay airborne. The company also falls among the lowest scorers for use of assets and long-term investment value.

F.W. Woolworth, No. 196, is the only retailer other than A&P among the least-admired corporations. Just five companies rate lower for management than Woolworth's 4.39. In September, a few weeks before his sudden death, Chief Executive Edward F. Gibbons resolved the company's identity crisis by deciding to close down 336 money-losing Woolco discount stores and concentrate on variety and specialty stores, including shoe stores. (See "Ed Gibbons's Legacy to Woolworth," FORTUNE, November 29.) Of the 200 companies, Woolworth scored

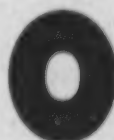
The least-admired big companies are ruled by uncertainty—about management, markets, and earnings.

lowest for product quality—4.47.

Crown Zellerbach, No. 195, did not rank lowest or very high either for any one attribute. Perceived as the high-cost producer in its industry, the forest products company has achieved an average annual total return to investors of only 3.55% over the past ten years vs. an industry median of 8.12%. Its highest score was 5.64 for product quality, and its lowest, 3.43, was for long-term investment value.

RCA, No. 194, drained its coffers by diversifying away from electronics and entertainment in the 1960s and 1970s,

and the company's lowest rating—3.74—is for use of assets. The door of RCA's executive suite has been revolving—four chief executives in six years—and the company received an unimpressive 3.99 for management.



OPERATING LEVELS in the steel industry are below 40% of capacity, lowest since the Depression, and two steelmakers are among the least admired. **Republic**, No. 193, has continued to pour dollars into a broad modernization program,

and its value as a long-term investment was rated at 3.83—lowest in the metal manufacturing group. **National Steel**, No. 191, beset by weakness in its savings and loan and aluminum businesses as well as steel, is facing an estimated 1982 deficit of over \$200 million.

Perhaps the least-known company on the list of the poorly regarded is **Tesoro Petroleum**, No. 192. Its low overall rating has little to do with the state of its industry, petroleum refining and marketing. Unlike some other companies rated low, Tesoro (1981

EIGHT KEY ATTRIBUTES OF REPUTATION

Quality of management

Most admired	Score
IBM	8.86
Hewlett-Packard	8.76
Johnson & Johnson	8.40

Least admired	Score
International Harvester	2.38
AAP	3.44
RCA	3.99

Quality of products or services

Boeing	9.09
Caterpillar Tractor	9.04
Hewlett-Packard	8.77

F.W. Woolworth	4.47
American Motors	4.66
AAP	4.86

Innovativeness

Citicorp	8.61
Merrill Lynch	8.56
Hewlett-Packard	8.46

AAP	2.92
International Harvester	3.43
F.W. Woolworth	3.62

Long-term investment value

IBM	8.11
Hewlett-Packard	7.99
Johnson & Johnson	7.87

International Harvester	1.58
American Motors	2.30
Pan Am	3.66

sales: \$3 billion) is not awash in red ink—it made \$80.2 million in 1981—and has not been realigning top management: Chief Executive Robert V. West Jr. founded the company in 1964. Tesoro's problem is uncertainty even in its industry about just what it's up to. In 1975 the company made an investment in Commonwealth Oil Refining that went sour when Commonwealth developed acute financial problems; the investment was written off in March. Tesoro's lowest rating—4.12—was for use of assets.

Reputation can assume as many

shapes as Proteus, the Greek sea god, and be as difficult to pin down. But when Michael Geran of E.F. Hutton was asked why IBM is so well thought of, he replied that the company's reputation rests on accomplishment. "Perception is reality," he says. FORTUNE's survey suggests that this claim, argued by philosophers through the ages, isn't far off the mark.

■ The best recipe for a golden reputation seems to be fast growth and few surprises—not an easy combination to sustain. Ten years ago, for example,

Polaroid and Xerox would almost certainly have been high on anyone's list of well-regarded companies; in this survey both ranked in the midrange. Investors should note that except for fast-growing stars like SmithKline Beckman and Hewlett-Packard, the most admired companies weren't the best buys in the 1971-81 decade. But recently most of their stocks have outperformed the indexes. The market apparently shares the view of our respondents that these companies have positioned themselves adroitly for the Eighties. ■

Financial soundness

Most admired	Score	Least admired	Score
IBM	9.21	International Harvester	6.60
American Home Products	8.88	Pan Am	2.67
Johnson & Johnson	8.78	Chrysler	2.15

Ability to attract, develop, and keep talented people

Hewlett-Packard	8.29	International Harvester	1.71
IBM	8.15 ¹	A&P	2.45
Merck	8.15 ¹	American Motors	3.11

Community and environmental responsibility

Eastman Kodak	8.32	A&P	3.45
IBM	7.88	International Harvester	3.78
Johnson & Johnson	7.76	F.W. Woolworth	4.50

Use of corporate assets

Johnson & Johnson	8.02	International Harvester	1.91
IBM	7.96	A&P	2.93
Abbott Laboratories	7.88	Pan Am	3.30

¹De.

continued

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HOW THEY RANK IN 20 INDUSTRIES

Aerospace

Boeing topped the 200 for product quality, but United Technologies bested Boeing in financial soundness and use of assets. The industry groups are based on OMB categories. Each company is assigned according to the business that contributed most to 1981 sales (or assets, for some financial companies).

Chemicals

The chemical companies are a homogeneous bunch. Lowest-ranked Celanese is not many strides behind top-rated Du Pont.

Rank	Aerospace	Score
1	Boeing	7.47
2	United Technologies	7.20
3	Northrop	6.83
4	Rockwell International	6.80
5	Martin Marietta	6.60
6	McDonnell Douglas	6.44
7	General Dynamics	6.32
8	Lockheed	6.08
9	Grumman	5.76
10	Fairchild Industries	5.46

Chemicals	Score
Du Pont	6.84
Dow Chemical	6.63
Monsanto	6.29
Union Carbide	6.02
PPG Industries	5.82
NL Industries	5.81
W.R. Grace	5.80
American Cyanamid	5.57
Allied	5.46
Celanese	5.36

Commercial banking

Staid J.P. Morgan, which does little retail business, outclassed all other banks in every attribute except community responsibility and innovativeness. Trend-setting Citicorp beat all 199 other companies for innovativeness.

Diversified financial

Fannie Mae (1981 assets: \$62 billion), a private corporation with government backing, is the largest of these companies. But it ranks below the others for use of corporate assets and management.

Rank	Commercial banking	Score
1	J.P. Morgan	7.47
2	Citicorp	7.39
3	BankAmerica	6.37 ¹
4	First Interstate Bancorp.	6.37 ¹
5	Bankers Trust New York	6.36
6	Chemical New York	5.97
7	Manufacturers Hanover	5.94
8	First Chicago	5.72
9	Chase Manhattan	5.43
10	Continental Illinois	5.16

Diversified financial	Score
Merrill Lynch	7.44
American Express	7.41
First Boston	6.80
Aetna Life & Casualty	6.59
Travelers	6.18
INA ²	6.04
Levins	5.87
Great Western Financial	5.22
Fannie Mae	5.19
H.F. Ahmanson	5.12

¹ie. BankAmerica leads all banks in one attribute (community responsibility), First Interstate in none.
²INA has merged with Connecticut General to form Cigna Corp.

Diversified services

American Hospital Supply scored highest in this group for all but three attributes. Philbro-Solomon, a commodities and securities trading company, was first for innovativeness and way with people. Halliburton was most admired for the quality of its oil-field products and services.

Electronics, appliances

GE outshone all others in its group, particularly for management. RCA was last except in community and environmental responsibility, for which ITT was rated lower.

Rank	Diversified services	Score	Electronics, appliances	Score
1	American Hospital Supply	7.30	General Electric	7.54
2	Philbro-Solomon	7.08	Emerson Electric	6.93
3	Halliburton	6.96	Western Electric ²	6.86
4	Super Valu Stores	6.66	Raytheon	6.74
5	Floor	6.40	Texas Instruments	6.69
6	Fleming Companies	6.39	Motorola	6.61
7	Foremost-McKesson	6.94	Westinghouse Electric	5.48
8	CBS	5.82	Litton Industries	5.38
9	Agri Industries	5.68	ITT	5.28
10	Tesoro Petroleum	4.59	RCA	4.50

Food

Almost everyone's favorite in the food industry is General Mills, which scored highest on all eight attributes. Greyhound—which gets more revenues from Armour, a food subsidiary, than from its buses—was at the bottom in every category.

Forest products

In this recession-weary industry, Kimberly-Clark was first in five of the eight attributes; its highest score was for product quality. Crown Zellerbach was rated lowest in all categories.

Rank	Food	Score	Forest products	Score
1	General Mills	7.52	Kimberly-Clark	6.79
2	Nabisco Brands	6.63	Weyerhaeuser	6.50
3	CPC International	6.49	Balsa Cascade	6.14
4	Dart A. Kraft	6.46	Georgia-Pacific	6.02
5	General Foods	6.21	International Paper	6.01
6	Seabrook Foods	6.02	Champion International	5.88
7	Ralston Purina	5.94	St. Regis Paper	5.82
8	Borden	5.71	Mead	5.33
9	IC Industries	5.47	Scott Paper	5.00
10	Greyhound	4.92	Crown Zellerbach	4.32

²Wholly owned by AT&T.



HOW THEY RANK IN 20 INDUSTRIES

Industrial/farm equipment

In an industry well sprinkled with conglomerates, Caterpillar Tractor and its earth-moving equipment still rank first. Deere leads this group for innovativeness and community responsibility.

Life insurance

Northwestern is first overall and for four attributes, including quality of services and management. All but Aetna, Connecticut General, Travelers, and Teachers and Teachers are mutual companies, for which investment value is not applicable.

Rank	Industrial/farm equipment	Score	Life insurance	Score
1	Caterpillar Tractor	7.48	Northwestern Mutual	7.15
2	Deere	7.27	Aetna Life ⁴	7.12
3	Cooper Industries	6.97	Prudential	6.98
4	Dresser Industries	6.61	Connecticut General Life ⁵	6.93
5	Combustion Engineering	6.58	Teachers Ins. & Annuity	6.36
6	Borg-Warner	6.30	Travelers ⁶	6.34
7	Teledyne	6.17	John Hancock Mutual	5.85
8	FMC	5.93	Equitable Life	5.79
9	Ingersoll-Rand	5.88	New York Life	5.78
10	Kidde	5.61	Metropolitan	5.55

Metal manufacturing

Most of these companies are out of favor, especially for long-term investment value. Top-ranked Alcoa was rated highest for management and quality of products, from bottle caps to car bumpers.

Metal products

Gillette is here because the company gets more revenues from razor blades than any other product. With only security analysts as judges Whittaker would have been second, but industry executives and directors preferred Textron.

Rank	Metal manufacturing	Score	Metal products	Score
1	Alcoa	6.49	Gillette	7.09
2	Armco	6.13	Textron	6.50
3	Northwest Industries	5.71	Continental Group	6.36
4	Inland Steel	5.43	Whittaker	6.20
5	Reynolds Metals	5.25	Foster Wheeler	6.15
6	LTV	5.22	McDermott	5.98
7	Bethlehem Steel	5.05	Gulf & Western	5.81
8	U.S. Steel	4.97	National Can	5.47
9	National Steel	4.62	American Can	5.38
10	Republic Steel	4.57	Chromalloy American	5.13

⁴Wholly owned by Aetna Life & Casualty.

⁵Connecticut General has merged with INA to form Cigna Corp.

⁶Wholly owned by Travelers Corp.

Motor vehicles and parts

TRW is champ of its industry in all respects except financial soundness, for which Bendix ranks first. The survey was made while Bendix and Martin Marietta were still dueling. Only Ford, AMC, and International Harvester rated lower than Bendix for management.

Office equipment, computers

IBM tops the rankings for all attributes except innovativeness. Wang comes in first there for its word-processing systems.

Rank	Motor vehicles and parts	Score	Office equipment, computers	Score
1	TRW	7.27	IBM	8.26
2	Dana	6.48	Digital Equipment	7.70
3	Eaton	6.47	Wang Laboratories	7.35
4	General Motors	6.31	Storage Technology	6.40
5	Bendix	6.29	Control Data	6.12
6	Signal Companies	5.85	NCR	5.76
7	Ford Motor	5.33	Honeywell	5.67
8	Chrysler	4.85	Pitney Bowes	5.24
9	American Motors	3.78	Burroughs	5.05
10	International Harvester	2.62	Sperry	4.93

Petroleum refining

Analysts gave companies in this group lower ratings than did the executives and directors polled, probably because oil stocks haven't been too slick lately. Both groups agreed, however, that Shell's greatest strength is management. Exxon rated third from last for use of assets.

Pharmaceuticals

The three top-rated drug companies are also among the ten most-admired corporations. Abbott just missed a place on that honor roll, but ranks third among the 200 for use of assets.

Rank	Petroleum refining	Score	Pharmaceuticals	Score
1	Shell Oil	7.26	Johnson & Johnson	8.14
2	Atlantic Richfield	7.17	Merck	7.92
3	Standard Oil (Indiana)	7.11	SmithKline Beckman	7.66
4	Standard Oil of Calif.	6.77	Abbott Laboratories	7.50
5	Exxon	6.42	Bristol-Myers	7.41
6	Mobil	6.35	Pfizer	7.33
7	Phillips Petroleum	5.77	Eli Lilly	7.14
8	Tenneco	5.62	American Home Products	7.10
9	Gulf Oil	5.53	Upjohn	6.33
10	Texaco	5.20	Warner-Lambert	5.46

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HOW THEY RANK IN 20 INDUSTRIES

Precision Instruments

There are many well-regarded companies in this industry group, starting with Hewlett-Packard. But two high-fliers of yesteryear, Xerox and Polaroid, landed near the bottom. Polaroid takes last place for long-term investment value.

Retailing

Federated and Kroger, both Cincinnati based, vie for top spot among the retailers. Federated rates highest for financial soundness, but Kroger was judged the best bet for investment value.

Rank	Precision Instruments	Score
1	Hewlett-Packard	8.26
2	Eastman Kodak	8.02
3	3M	7.46
4	Parkin-Elmer	6.78
5	Tektronix	6.43
6	Becton Dickinson	6.32
7	General Signal	6.30
8	Xerox	6.22
9	Polaroid	6.04
10	Lear Siegler	5.75

Retailing	Score
Federated	6.93
Kroger	6.90
J.C. Penney	6.59
Lucky Stores	6.15
Sears Roebuck	5.95
Safeway Stores	5.91
American Stores	5.71
K mart	5.52
F.W. Woolworth	4.09
A&P	3.17

Transportation

Railroads have overtaken airlines, especially in perceptions of financial soundness. Delta is the only airline that reached the stratosphere. Pan Am barely got off the ground.

Utilities

The experts who rated them agreed that all the largest utilities are well managed and provide excellent service. AT&T and Texas Utilities scored especially high for long-term investment value and financial soundness. Ma Bell is the only non-industrial among the ten most admired corporations.

Rank	Transportation	Score
1	Delta Air Lines	7.25
2	United Parcel Service	6.91
3	CSX	6.34
4	Santa Fe Industries	6.30
5	Burlington Northern	6.00
6	American Airlines	5.85
7	UAL	5.67
8	Trans World	5.21
9	Eastern Air Lines	4.67
10	Pan Am	3.78

Utilities	Score
AT&T	7.91
Texas Utilities	7.16
Southern Calif. Edison	6.59
GTE	6.57
Commonwealth Edison	6.27
American Electric Power	6.19
Pacific Gas & Electric	6.01
Southern Co.	5.87
Consolidated Edison	5.82
Middle South Utilities	5.76

THE MORNING AFTER

MERGERS/CAROL J. LOOMIS

■ Is there trouble at Phibro-Salomon? Reports have been subterraneously circulating that Salomon Brothers, the Wall Street trading firm, would like to get out of the merger that just over a year ago joined it and Phibro Corp., one of the world's major commodities traders. John H. Gutfreund, head of Salomon, says the reports are "nonsense." David Tendler, chief executive of the merged company, Phibro-Salomon, escalates that to "total nonsense." Their words have a certain ring of reality. How could Salomon possibly undo the merger? As the traders at Phibro-Salomon know, a sale is a sale.

Yet it is easy to imagine Salomon being subterraneously and growlingly restless, since this deal, signed on October 1, 1981, has so far produced some wildly skewed results. Phibro's business, which rides on the strength of the world economy, was dismal during the first year of the merger. Ludwig Jesselson, 72, for many years head of the company and still its guiding force, supplies some perspective: "You know how long I have been with Phibro? Forty-five years. And I have *never* experienced as disastrous a situation in our commodities as I've experienced in the last two years." John Gutfreund, speaking for the Salomon camp, calls Phibro's performance in the merger's first year "a disappointment."

Salomon, on the other hand, made colossal profits in that period—around \$300 million before taxes. Since Salomon, formerly a partnership, never before reported profits as a corporation does, comparing that amount with past results is tricky. But it appears that the \$300 million is at least double the best operating profits Salomon ever earned before.

THAT ACHIEVEMENT, of course, occurred in a remarkable Wall Street year. Bond prices boomed, and so, eventually, did the stock market. The rise in these markets was precipitated, in part, by Salomon's powerful chief economist, Henry Kaufman, who in August changed his interest rate forecast, abandoning the prediction that rates would rise sharply before the end of the year and instead predicting a recession-induced decline. Piling funds into the market, and getting at least a small jump on the competition, Salomon made big money on bond and financial futures positions. In stocks, however, Salomon mistakenly identified the market's turn as a temporary blip.

RESEARCH ASSOCIATE: Lynn Fleary



AT PHIBRO-SALOMON



The firm stayed short on stocks for some days and ended up taking sizable losses.

In any case, the guns of August alone do not explain Salomon's great year. The firm made good earnings in earlier months and overall produced a standout performance in trading and investment banking. Some Wall Streeters believe Salomon's performance was aided by the merger. They say that the replacement of partnership capital with public capital enabled the company to operate with a verve not formerly feasible. The point is arguable—and shrugged off as dubious even by some of Salomon's top executives. Certainly any financial support that Phibro provided was indirect. Salomon did not draw at all on Phibro's funds during the year; in fact, it sent about \$45 million of its own money upstream.

ONE YEAR'S RESULTS obviously do not foretell the final score on a merger. But right now Salomon's excuses for cheering look small. Had Salomon not sold out, the year's profits would have belonged to its partners rather than to a new mate that is so far bringing very little to the party. A further cause for dismay at Salomon should be the price of the original deal. Phibro paid \$554 million for the firm. By almost any measure that looks like a world-class steal.

That judgment might seem to arise from hindsight. But a *FOR-TUNE* article just after the merger made the point, even then, that the price, when compared with Salomon's book value, "looks quite cheap." (See "Behind the Salomon Brothers Buyout," September 7, 1981.) Many Wall Street mergers later, the point seems incontestable, as the chart on the next page shows. Salomon, one of Wall Street's premier firms, sold for under two times book value. Even *Bac'de*, an acknowledged weakling on the Street, sold for more than two times book. On price alone, Salomon's sale of itself looks like just about the worst trade it ever made.

The sale occurred because Salomon's partners never imagined—"never in my wildest dreams," says one—that the firm could make as much money this year as it has. It also occurred because the partners saw other things in the Phibro deal that they valued highly: liquidity and the chance to merge with an apparently compatible, well-capitalized, look-alike, think-alike company. Liquidity was prized because it was almost totally lacking at Salomon, which by partnership agreement socked most of its profits into the partners' capital accounts instead of into take-home pay. The system kept the firm growing nicely, but it did not do much to improve the partners' life-styles.

A former partner at Salomon says that over the years many partners grew obsessively eager to see the firm change its rules, or go public, or make a deal—do *anything* that would allow them to snag their capital. He compares the Salomon partners to a herd of cattle burning with thirst, ready to stampede.

The deal the partners went for carried unusual terms. To begin with, Phibro paid Salomon's 62 general partners \$254 million, of which \$250 million was in the form of ten-year 9% notes, convertible over five years into Phibro stock at a price of \$27.78. Concurrently, both the firm's general and limited partners withdrew their capital from Salomon, or in other words, realized its book value. They did

The opposite camps at Phibro-Salomon are headed by John H. Gutfreund (far left), 53, of Salomon and David Tendler, 44, of Phibro.

that by removing assets from the firm equivalent in value to its net worth on September 30, 1981, a fiscal year-end. The partners have never revealed that book value figure, saying only that it exceeded \$300 million. A good guess would be that the amount was at least \$350 million, and perhaps significantly more. (In the chart below, FORTUNE used a book value figure of just over \$300 million, the minimum the partners admit to. Using a higher figure would present Phibro as having paid even a lower multiple of Salomon's book value than the chart shows.)

For \$254 million in cash and notes, therefore, Phibro got a Salomon Brothers stripped of net worth. That state of affairs couldn't last, since securities firms must have a cushion of net worth to operate. So the deal required Phibro to make a \$300-million investment in its new subsidiary. That brought the total purchase price to \$554 million.

Today Salomon's executives do not try to argue that they got top dollar for the firm. They do talk about hindsight, however. They also defend the deal in terms of Phibro's stock price, which is important to the former Salomon partners because the convertible notes they received made them owners of more than 11% of the merged company. After the deal was done, Phibro stock fell from near \$30 a share to \$20. At that moment, says a Salomon man, the sale "was a lousy deal." Since then, as the market took off and the size of Salomon's profits began to be known, the stock has vaulted, hitting a high of \$60 in mid-November. Recently, it was about \$50.

At that price, the \$250 million in notes is theoretically worth a handsome \$450 million. But under the terms of the sale, conversion of 35% of the notes became possible on October 2, and some former Salomon partners have converted and sold. The price of Phibro-Salomon stock in early October was about \$36. Those who sold then naturally cursed their judgment when the price rose to \$60.

In any case, a rise in Phibro's stock does not make up for the low price on the deal. The Phibro-Salomon notes the Salomon partners hold simply represent one of the investments into which they put the proceeds of their sale. This investment, true, was required and has another special feature: the Salomon partners, by their work in the merged company, can help make their holdings pay off. But the notes are still an investment—a separate matter from the sale.

In bidding up Phibro-Salomon stock, Wall Street has been busy celebrating Salomon's earnings. It could not have been celebrating those coming from the Phibro side of the business, because at the moment they are insignificant. Indeed, if the merger had not been done, Phibro's stock would surely be selling today at a quite low price—perhaps \$15 or under.

PHIBRO'S PROBLEMS, deeper than either it or Salomon anticipated, arise both from its trading operation, run under the ancestral name Philipp Brothers, and from its secondary business, Phibro Resources. As a worldwide trader of oil, metals, and just about every other commodity, Philipp Brothers depends for its livelihood on a healthy economy. Since that has not existed lately, the business has been terrible. Phibro Resources, equally dependent on economic activity, is an industrial operation with interests in fertilizer, zinc, vanadium, molybdenum, copper, and most of all, oil. These businesses account for about \$450 million on Phibro's books, but in today's market they are surely worth less. That is certainly true for the \$300 million in oil assets, which mostly arrived at Phibro by accident when it got caught up in the 1980 silver crisis manufactured by the Hunt brothers of Texas. The Hunts had signed contracts to buy silver from Phibro, but after failing to pay, they settled by handing over oil properties they owned in the Beaufort Sea off northern Canada.

SALOMON'S WORST TRADE EVER

The rush to buy Wall Street firms during the last two years has produced some high prices in relation to book values, but they didn't turn up in the Phibro-Salomon deal. Phibro paid less than two times book value for Salomon, the low price in these seven major acquisitions. Timing doesn't explain the bargain. Salomon negotiated its price knowing that Bache had sold a couple of months earlier for more than twice book and Shearson Loeb Rhoades for a fancy 3.4 times book. The real explanation is that Salomon wanted in some manner to unlock the capital its partners had in the firm and save a merger with Phibro as the most attractive way to go about it. Among the several similarities between the two organizations is the tendency of both to pay employees lavishly, under the theory that the only assets the companies have that really matter are people.

PRICES PAID FOR WALL STREET FIRMS					
ACQUIRED COMPANY Acquiring company (date)	PRICE millions	PERCENT OF BOOK VALUE			
		100%	200%	300%	400%
SALOMON BROTHERS Phibro (10/81)	\$554				
BACHE Prudential (6/81)	\$376				
DEAN WITTER REYNOLDS Sears Roebuck (12/81)	\$407				
FOSTER & MARSHALL Shearson/American Express (3/82)	\$75				
LOEWI Kemper (5/82)	\$44				
ROBINSON-HUMPHREY Shearson/American Express (6/82)	\$77				
SHEARSON LOEB RHOADES American Express (6/81)	\$1,038				

The key to this puzzlement, it turns out, is about \$15 million in quarterly interest expense applicable to the \$554 million with which Phibro bought Salomon. Phibro thinks that expense should be charged to Salomon, and internal profit reports handle things that way. But in the fourth quarter Salomon was a nonconsolidated subsidiary and the debt was on the books of the parent company; so Salomon could not, in the annual report, be hit with the charge. Absorb-

Salomon people have been talking privately about profit numbers that exceed those officially reported. At a dinner party recently, a Salomon insider told a friend that his part of the business had made \$550 million in the year that ended in September. Other Salomon executives have been throwing around similar figures. They probably refer to profits before a lot of charges—the interest expense, amortization of goodwill, overhead assessments from Phibro, and some portion of bonuses. Still, \$550 million is a big number.

ONE SURE THING about the merger is that Salomon's employees, including its onetime partners, were extraordinarily well compensated this year. The pay was consistent with Salomon's profits, with Phibro's reputation as a high-payer, and with the fervent desire of John Gutfreund (pronounced "good friend") to keep his key people happy even though the pleasures of partnership had disappeared. For the most part he seems to have succeeded. Turnover has not leaped, as doomsayers had predicted.

continued

and gas properties. Salomon's profits differ from others on the charts because the firm was a partnership before the merger and paid partners relatively small salaries. Had they drawn typical Wall Street salaries and bonuses, pre-merger profits would have been lower and the 1978 loss higher. Salomon's 1981 profits are estimated because the firm never revealed results for the July-September quarter, in which it busily stripped profits from the business in a pre-merger cleanup. These extras are not included in the \$180-million estimate for 1981. Since merging, Salomon has starred, accounting for all profits in 1981's fourth quarter and most of those in 1982.





"He's the man," says an admirer of Ludwig Jesselson, referring to the power that the former chief executive of Phibro still has in the company. Jesselson, a vigorous 72, ran Phibro before it split from Engelhard Minerals & Chemicals in May 1981, then turned over his title to Tendler.

The pay surely helped. A former Salomon partner says he believes the firm, in its eagerness to make the merger palatable, paid compensation well in excess of going rates on the Street. A Salomon insider mentions pay levels of \$750,000 for middle-grade managing directors (the new name for onetime partners) and even for good traders. With that kind of pay scale, Gutfreund may well make as much this year as Tendler did in 1981: \$2.5 million (\$1.3 million in cash plus \$1.2 million in stock that will be vested over five years).

It is interesting to compare a possible \$2.5-million income with what Gutfreund could have earned (though not necessarily got his hands on) if Salomon had stayed a partnership this last year. The \$2.5 million from Phibro-Salomon would at first glance look good because Gutfreund would be earning it without having the bulk of his capital at risk in his business, as he did at Salomon. But after that, the comparison pales. Gutfreund's share of Salomon's annual profits was around 5%. On \$300 million in profits, his cut would have been \$15 million.

Salomon has not totally escaped defections. Four onetime partners stepped out or took consultant status this last year. Among them was Jon W. Rotenstreich, 39, a highly regarded investment banker, who in December announced his intention to leave. The most notable departure was Richard G. Rosenthal, 40, an arbitrager, valued member of Salomon's executive committee, and one of two partners (the other was J. Ira Harris) who negotiated the Phibro merger. Rosenthal received \$10 million in convertible notes from

the deal in addition to getting his capital out of Salomon. Just short of his 25th anniversary on Wall Street this year, Rosenthal, who is a high-school dropout, arranged for a special meeting of Salomon's managing directors and said he was leaving because "it's time for a change." Rosenthal has since told friends he just didn't want to spend the rest of his life making money.

Rosenthal is working now only as a Salomon consultant and is also recovering from an operation. His departure, though it fits predictions that the newly cash-rich Salomon partners would lose their taste for hard work, is still considered rather mysterious around Salomon. This puzzle has also encouraged the quip: "Dickie left to finish high school."

While Salomon was paying through the roof this last year, Phibro was cutting back in people and costs, including compensation. Benjamin Bollag, an executive vice president of Phibro who left in September to start a competitive business, says the cutbacks have reduced Phibro's employee rolls by 15%. That would mean a cut of about 600 people. David Tendler says that is "too high," though he will not reveal the precise figure.

TENDLER'S SENSITIVITY on the point no doubt reflects Phibro's long-standing reputation as a "family company," averse to letting people go. For many years it did not do so. If business in one commodity was hurting, employees in that area were subsidized by the profits from another. In this recession, however, the weakness in Phibro's business has been so pervasive that cutbacks became, in Ludwig Jesselson's words, "painful but absolutely necessary."

Bollag thinks the link with Salomon put particular pressure on Phibro to cut back. Says he: "There was this knowledge in Phibro that Salomon was there watching and that we had to do something."

Other changes at Phibro included a reorganization last March. Philipp Brothers, formerly run by Tendler, was set up as a subsidiary and given a new chief executive, Thomas D. O'Malley, 41. In a route that Tendler also followed, O'Malley started his career at the company in traffic, moved up to trading, then into the management ranks, serving abroad at times. His most recent job was running Phibro's oil-trading business, the company's lead operation even now. O'Malley calls oil "the horse I rode to New York."

Oil has been run as a fairly separate area of the business and that led Phibro's management to believe that O'Malley could move into the rest of Philipp Brothers and make the sweeping changes required with a minimum of emotionalism. He's been doing just that. Bollag calls O'Malley "a tough fellow." He is plainly liked by the Salomon people, who see him as getting needed things done.

Last summer, after O'Malley had taken charge, Philipp Brothers and Salomon Brothers finally accomplished a brotherly chore that had been scheduled to be done months earlier. When the merger took place, the two companies had some competing operations. As a cure, Salomon was supposed to close down its commodity trading business promptly and Philipp Brothers its financial futures department. It just didn't happen—"for a variety of reasons," says Gutfreund, who regards the delay as an irritating mistake. Competing organizations, he says, lead to a feeling of "nagging distrust" and make one "look like a donkey" for permitting them to survive. Asked in an interview about the delay, Tendler dismisses its significance: "The important thing is that both businesses were closed."

That bit of cooperation is about as close to synergy as Phibro and Salomon have so far come, though as Gutfreund keeps pointing out, it is early in the game. Tendler, however, appears to have modest expectations about future joint accomplishments. "The synergy," he says, "was the merger." That rather amorphous statement seems to mean Phibro accomplished most of what it needed to just

by getting Salomon and its band of experts into the fold. Considering Salomon's profits, Tendler may have a point.

An ironic note about the merger is that several Phibro-Salomon executives now describe the parts of the company as happily countercyclical. Salomon, they say, is a kind of leading indicator, with an ability to prosper in recessionary times while Phibro languishes; later, so the theory goes, Salomon may fade as Phibro recovers. In truth, it could all work out that way, and perhaps that outcome was even anticipated in 1981. But it was not presented publicly as a rationale for the merger when the deal was made.

Today, schooled in countercyclicity, the two branches of Phibro-Salomon operate autonomously and join together mainly to exchange information. Their executives meet weekly, usually at breakfast on Wednesday, sometimes gathering in uptown New York at Phibro's offices on the Avenue of the Americas, sometimes downtown at Salomon's near the foot of Manhattan. The executives are also the core of the company's board. Of 19 directors, six are from Phibro, six from Salomon, the rest are outsiders, most with Phibro ties. At the top of the board sits Tendler, as co-chairman and C.E.O. The other co-chairman is Gutfreund.

The two men are not much alike, and they seemed uncomfortable with each other during a recent lunch with FORTUNE that Tendler initiated to aid the preparation of this article. Tendler took the lead in answering questions, but he is not notably informative. He talks in generalities, shuns financial subjects, and admits to secretiveness, which he says trading taught him. His intelligence, some people say, is of the street-smarts variety, useful in Phibro's hurly-burly world. Gutfreund's intelligence is much more on display, and he is more forthright. But he can also flare up at a question he doesn't like—as he often flares up on the Salomon trading floor. At the lunch he frequently seemed morose, as if to ask, "What am I doing here?"

The tone of that lunch and separate interviews FORTUNE had with the two men make it easy to believe reports that a management struggle could erupt in the company. That prospect is no doubt increased by the skewed profits in 1982 and by the possibility that slack economic activity will prolong the imbalance. In exchange for its contribution to the till, Salomon may want more power than it has.

Ben Bollag, the departed Phibro executive, says that from the days the merger was first proposed, he felt it unlikely that Salomon and Phibro could get along well together. Says he: "My prediction is that it's only a matter of time before the Salomon team is going to be running Phibro." The reason, he says, is Salomon's "professional management," which he thinks superior to Phibro's.

That may make a few Wall Streeters hoot, since Salomon has usually been thought of as free-

wheeling rather than as a citadel of management acumen. John Gutfreund himself, despite Salomon's super performance this year, goes out of his way to belittle his executive talents. But when he is asked for his appraisal of Tendler's management, he displays no great enthusiasm either: "It's been a very, very difficult year for Philipp Brothers. David made a major change when he made Tom O'Malley president of Philipp Brothers, and he must be credited for doing that. I think you have to give them some time to see how that works. I don't want to make a quick judgment."

IF A MANAGEMENT SHOWDOWN DEVELOPS, an important role in settling it may be played by Phibro-Salomon's largest stockholder, Minerals & Resources Corp. ("Minorco"), which owns about 27% of the stock. Minorco is the investment company through which the Oppenheimer interests of South Africa hold major portions of several corporations. Minorco's president, H. Ronald Fraser, sits on Phibro-Salomon's board and concedes that Minorco's large stake probably makes him a particularly "interested" director. Right now the Oppenheimer group could hardly be other than happy with its holding, since Salomon's arrival has, of course, vastly added to Minorco's wealth. Fraser speaks of the merger with amusing understatement: "It seems to us a very prudent and sound investment from Phibro's point of view."

The Oppenheimer interests have lately been sizing up John Gutfreund. In early April Gutfreund traveled with Tendler to South Africa for a get-acquainted weekend meeting with Oppenheimer officials during which some business topics, among them compensation policy, were discussed. Gutfreund describes the visit as a pleasant, English-country-house kind of weekend, whose purpose seems to him obvious. Says he: "If you were sitting in South Africa with a 27% stock interest, you'd be curious about these folks running Salomon Brothers and wondering whether these profits are a one-time phenomenon."

That is a good question. And another is the shape of future management at Phibro-Salomon. On the surface Gutfreund seems a stronger, more forceful personality than Tendler, and perhaps that would give Gutfreund an edge in a contest. But the merger itself makes it hard to knock Tendler's intelligence and touch. After all, Gutfreund sold Salomon—and Tendler bought.

■ Mergers that set out to solve one company problem sometimes end up, as this one has, raising troublesome new questions. Frequently, these revolve around management of the merged corporation. The possibility that a battle for power could erupt at Phibro-Salomon creates odd uncertainty about a stock that was one of the big winners in the bull market of 1982. □

Salomon's chief economist, Henry Kaufman, got \$10 million in convertible notes in the merger in addition to getting hold of his partnership capital. On October 2, all noteholders became free to convert and sell up to 35% of their Phibro-Salomon stock. Kaufman has sold some shares. Salomon's boss, Gutfreund, who received \$13.6 million in notes, has sold no stock at all.



GENERAL FOODS GOES BACK TO GROWING

■ For years the friends and followers of General Foods—a legion of former employees, Wall Street analysts, and ad agency people—regarded the company with a sort of exasperated affection. They admired its splendid portfolio of brand names, its premier market position in many packaged foods and drinks, and selling skills exceeded perhaps only by Procter & Gamble's, but General Foods' performance kept disappointing them. Acquisitions turned into duds, and new food products fell flat. Today, however, the company has a revival plan—and it just may be working.

Certainly anyone with his wits about him in 1981 might have wondered why investor Warren Buffett, Omaha's answer to Bernard Baruch, bought 2.6 million General Foods shares, 5.2% of the total. When the purchase was announced most security analysts were neutral to bearish on General Foods. The price of its shares drifted in 1981 between \$24 and \$35, about the same range they had covered since the 1974 recession.

THEN IN 1982 the shares climbed briskly to a high of \$47, raising the value of Buffett's investment by \$40 million, before easing off at year's end. The analysts changed their signal to "buy." Earnings for the six months ended in October were up 20%, after having stagnated for three years.

The new appreciation is hardly gastronomic. Among the \$8.4 billion of instant, frozen, powdered, ready-to-mix, freeze-dried, presweetened, and otherwise processed or artificially constituted foods and drinks it

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Philip L. Smith

sold last year, none is likely to win culinary fame, except perhaps among children. However, the revised recipe for success has produced a fascinating concoction for connoisseurs of marketing, management, and strategy.

Unsuccessful acquisitions that didn't fit are being shucked off and replaced with companies that complement General Foods' primary business. Oscar Mayer & Co., the big processed-meat company, came aboard in 1981, and Entenmann's Inc., a strong regional bakery, in November. Venerable product lines have been revived with new formulations to put them wholesomely in tune with our healthful times, for example by adding honey and nuts to Raisin Bran.

Quite a few employees have been moved out to reduce overhead costs. Over the years company headquarters in White Plains, New York, had filled up with people who were in-

telligent, well educated, well bred, and not very aggressive. Former executives recall how relaxing it was to work at General Foods. "They became more engrossed with the process than with the product," says an ad agency executive who has worked closely with General Foods for years. "What mattered to them was the way things were done." Last year the company cut its work force significantly and shuffled the upper ranks of management.

Under Chairman James L. Ferguson, company strategy in the 1970s was to make the best of a good thing—and General Foods had plenty of good things to work with. It is the biggest coffee company in the U.S. and is strong in other markets from powdered drinks to cereals (see the chart on page 95). Ferguson, who became chief executive officer nine years ago at 47 and who views the world with the impassive expression and narrowed eyes of a poker player, maximized profits by cutting costs to build margins. The policy worked. Earnings per share more than doubled between 1973 and 1979 to \$4.65.



Awakened to new growth opportunities, General Foods has added Oscar Mayer meals and Entenmann's baked goods to its menu of packaged edibles.

By 1980 that policy had gone stale. General Foods found itself confined within the growth rate of the overall market for food, which expands with the population at about 1% a year. At best, General Foods could look forward to a 2% annual increase in volume. Sales of some kinds of foods were increasing faster—poultry, fish, natural fruit juices, frozen entrées, cheese, yogurt, fresh baked goods, low-calorie soft drinks—but as it happened, General Foods wasn't in any of these categories. On the other hand, per capita coffee consumption peaked in the U.S. back in 1962 and coffee is General Foods' biggest source of cash. It accounted for 31% of the company's sales and 22% of the operating profits in 1982.

During the years of maximizing profits, General Foods did, of course, look for ways of expanding. The results can be seen by comparing the 1981 and 1982 annual reports. The 1981 report spoke of the "growth opportunity" in Burger Chef and the other restaurant chains the corporation owned. The report also featured several new products:

Sun Apple, an artificial juice; Crispy Cookin' French Fries; and Lean Strips, a bacon substitute made of soy and dried egg whites. The 1982 report didn't mention any of these three new products. All had flopped. Burger Chef had been sold and the report said management was "dealing decisively" with other "low-return businesses." General Foods is about to sell the other restaurants.

EVEN BEFORE these problems surfaced so obviously, General Foods had started to turn its great bulk toward a new course. Top management began developing a plan late in 1980 and by the time it was presented to the board of directors in February 1982, major elements of it were already in place.

Merrill Lynch's food industry analyst, William F. Maguire, has described the switch in strategy concisely: "From margin protection to volume building." The company's managers were told to raise unit volume by an average of 3% to 5% a year, instead of the 1% of recent years, and achieve a 15% return on

capital, instead of the 13.2% return of fiscal 1982. The plan requires the company to be tougher in getting rid of subsidiaries, products, and people who aren't performing. To make the break with the past clear, General Foods took a \$1.20-per-share write-off to sell or fix poor businesses last April, at the end of its 1982 fiscal year.

The goals are ordinary enough. It is in the details that the plan becomes interesting. Take the new acquisition policy. Instead of buying companies almost at random in industries it knows nothing about, General Foods is buying growing food companies that fill conspicuous holes in its menu. The purchase of Oscar Mayer for \$469 million in 1981 put General Foods into the processed-meat business in a big way, with a company growing at an annual rate of 5%. What added to General Foods' interest was Oscar Mayer's ownership of Louis Rich, a processed-turkey company growing at an 11% clip. General Foods now sees itself poised to move with the consumer trend away from red meats and toward poultry. Turkey is especially attractive:

being a bigger bird than a chicken, it yields more meat for the same amount of processing labor and hence more profit. So today 13.5 million turkeys are gobbling their way toward the slaughterhouse to become smoked turkey breasts, turkey frankfurters, turkey salami, turkey bologna, turkey pastrami, and turkey ham for General Foods.



Robert L. Seelert

The wisdom of the Oscar Mayer purchase was not accepted at first on Wall Street. Meat is a volatile business, said the analysts, and makes the company more vulnerable to commodity price swings. That's true of fresh meat, not processed meat, replied the company. General Foods paid 12 times earnings for Oscar Mayer, the analysts complained, when General Foods was selling for only seven times earnings. Profits would be diluted. That might be true but only in the short term, General Foods replied.

The facts bore out the company. As Ferguson observed recently, Oscar Mayer's earnings grew so briskly in the first year with General Foods that there was no dilution. Since the acquisition costs are fixed, all further earnings gains will be turkey gravy.

When General Foods announced the purchase of Entenmann's from Warner-Lambert Co. for \$315 million—15.8 times earnings—Wall Street was ready to see the wisdom. Entenmann's purveys tasty doughnuts, coffee cakes, and other fresh goods from bakeries in Long Island, Miami, and Chicago. Its growth is as fast as Oscar Mayer's, 5% a year. Entenmann's now covers 36% of the U.S. population, but with General Foods' help it can double its potential markets.

ENTENMANN'S and Oscar Mayer give General Foods access to two new segments of the supermarket business, each with its own sales and distribution force. The packaged goods that General Foods makes are shipped off to distributors who sell to the supermarkets. But Entenmann's 800 trucks deliver fresh baked goods daily to most stores and pick up the stale coffee cakes and doughnuts. As General Foods points out, the same store delivery system can be used for breads, cookies, and fresh snacks. With Oscar Mayer, General Foods acquired a national system for delivering refrigerated items to refrigerated display cases, a system that could handle dairy and other products.

Oscar Mayer added about one percentage point to General Foods' annual growth rate

and Entenmann's about half a point. So the company now has a base growth rate of 2½% to 3½% instead of 1% to 2%. That's an improvement but still short of the 5% goal. Though General Foods won't make any more acquisitions while the first two are being digested, says Ferguson, "we'll have to find another track or two to run around" to close the gap. The company "is a real cash machine and we can rebuild our base quickly," he adds. But the job still won't be easy. One of the handicaps of being as big as General Foods is that it's hard to find any new activity that will make much difference to the total company. When it's back in the market for acquisitions, General Foods will be looking for companies with potential revenues of at least \$150 million to \$200 million, even if they start out much smaller than that.

WHILE GENERAL FOODS looks for new opportunities, the basic businesses—coffee, desserts, cereals, powdered drinks, frozen vegetables, stuffings, dressings, and pet foods—are also being asked to make their contribution to growth. Edward Meyer, president of Grey Advertising Inc., one of the six agencies that handle General Foods' \$500 million of advertising annually, explains how old brand names are being revived. Grape-Nuts has been around since 1898 and Raisin Bran since 1942. They are well established, healthful cereals but they needed a boost because they hadn't been promoted to consumers newly concerned about nutrition. Raisins are healthy and good, so last year General Foods' Post Cereals added Raisin Grape-Nuts to its line. It is a success. Then Post Cereals threw in everything chewy, wholesome, and tasty sounding that it could put together in one cereal to create a breakfast mouthful: Honey Nut Crunch Raisin Bran. The company expects sales of these two and a third new cereal, Fruit & Fibre, to total \$95 million a year.

Jell-O, another solid old brand, has been around since 1897. But gelatin is losing ground as a dessert because, according to General Foods, the three to four hours it takes Jell-O to set is more than today's consumer wants to wait. "She," as General Foods persists in calling its customers, is apparently not satisfied with foods that are merely easy to prepare but wants them ready-to-eat—as well as more healthful. So General Foods put together the venerable name of Jell-O and the wholesomeness the consumer perceives in pudding, froze it to create an instant food, and called the result frozen Jell-O Pudding Pops. For its efforts to combine the right emulsifiers, oils,

smoothers, and thickeners to give frozen milk pudding on the end of a stick the right taste, texture, and durability, General Foods has been well rewarded. Pudding Pops promises to be a \$100-million-a-year product. Now being tested: frozen gelatin on a stick.

Coffee has also been a slow-growth business, but General Foods has persevered. While fighting off Procter & Gamble's invasion of the market during the past decade without losing any share, General Foods also survived price disruptions caused by the frosts in Brazil in the mid-1970s that boosted the price of beans 550% in two years. "The analysts worry too much about our coffee business," says Ferguson. "It's a hell of a business, in good times and bad times."

Still, as Ferguson admits, "it is hard to get earnings growth" from coffee. To get that growth—to get Americans to drink more rather than less coffee—General Foods has changed its advertising. Since young people are resisting coffee, the aging Robert Young has been retired as a spokesman for Sanka, and quarrelsome Cora has been replaced by scenes of people enjoying Maxwell House coffee while Ray Charles croons about that "good-to-the-last-drop feeling." General Foods has successfully introduced new coffees—Maxwell House Master Blend, which gets more coffee out of the same weight of beans, for one.

General Foods plans to profit from the popularity of diet drinks by marketing Kool-Aid with aspartame, the low-calorie sweetener without the unpleasant aftertaste. When aspartame-sweetened Kool-Aid goes national in 1984 along with another drink, Crystal Light, General Foods expects each product to be in the \$100-million-a-year class.



Ervin R. Shames

Only General Foods' pet food division has deliberately shrunk. General Foods lost money on it in fiscal 1981 and 1982; the company has cut staff and funds sharply, concentrating on the so-called soft-moist dog foods that have been its

more profitable lines, and will make a profit in fiscal 1983.

General Foods' overstuffed overhead is a major target of the strategic plan. The company has proportionately higher selling, general, and administrative costs than any of its major competitors. SGA expenses amounted to 32% of sales in fiscal 1981, compared with 28.5% for the next highest, General Mills, and 12.9% for the lowest, Ralston-Purina.

The high expense ratio may be explained partly by more intensive advertising and pro-

motion, but only partly. To cut into the remainder of that overhead, General Foods is reducing the company payrolls. Through attrition and dismissals, the work force has been cut 6.2% so far in fiscal 1983 and another 2% may go before the year ends in April. If so, General Foods will have cut its total work force from about 43,000 to a bit less than 40,000. (The figures are about equally divided between U.S. and overseas employees and do not include people working for Oscar Mayer, Entenmann's, or the restaurants that are being sold.)

International operations are particularly ripe for trimming, since they account for 25% of the company's sales but only 17% of the profits. Of the \$1.20-a-share write-off announced last April, 78 cents will be assigned to overseas operations destined for cutting in the next few months. In addition, since the company intends to grow more by acquiring new businesses than by developing new products, corporate research is being cut by 6% to 7% in real dollars. The company is abandoning its effort to turn soybeans into passable imitations of various table favorites. Judging by the reaction to Lean Strips, the public isn't ready for soy food.

A NEW STYLE of management is seeping in with the new strategy. After nine years as chief executive, Ferguson, at 56, remains in charge. Indeed, he is the instigator of the new policy. But in 1981 a strong new figure emerged when Philip L. Smith, 49, was appointed president and chief operating officer. More popular in the company than the remote Ferguson, Smith is an informal, open sort of manager whose appointment was hailed inside the company. "One of the good guys won" was the reaction of corridor gossips.

Like most of top management, Smith is a marketing man; he started in the Maxwell House division in 1966. While Ferguson detaches himself from daily operations—he has been going up to Harvard lately for private seminars on subjects as far removed from Jell-O and Kool-Aid as genetic engineering and astrophysics—Smith is watching the operating divisions closely. "My focus is down into the organization," he says. "Jim brings me a goody like Entenmann's and now I have to deliver. This balance plays well to my skills." Smith spells out how other executives are expected to deliver from now on—he wants to see them develop good organizations, produce the company's required 15% return on capital, and above all bring good ideas to market. As an example of what he wants, he cites Master Blend coffee.

The man in charge of the coffee division

1981 Market Shares

PROCESSED MEATS** \$18.2 billion

6.6% ... General Foods
4.9% ... Geo. A. Hormel
88.5% ... All others

PET FOODS* \$4.4 billion

38.5% ... Biotin-Purina
11.0% ... Carnation
8.8% ... General Foods
31.7% ... All others

COLD CEREALS* \$3.0 billion

39.3% ... Kellogg
20.5% ... General Mills
15.6% ... General Foods
24.6% ... All Others

GROWN COFFEES* \$2.7 billion

34.0% ... Maxwell House
24.0% ... French & Company
42.0% ... All others

INSTANT COFFEES* \$1.5 billion

46.5% ... General Foods
27.8% ... Nestle
25.7% ... All others

INSTANT BEVERAGES \$750 million

66.0% ... General Foods
16.0% ... Borden
18.0% ... All others

Dominating sales markets, holding its own in others, General Foods competes on many fronts with many strong opponents. Individual General Foods brands such as Kool-Aid, Maxwell House, and Gaiusbury are front-runners in their markets. The company's portfolio of its packaged food divisions come from first-place brands.

*SOURCE: LEHMAN BROTHERS Kuhn Loeb Inc.
**SOURCE: BUSINESS TREND ANALYSTS

when Master Blend was launched, Robert L. Seelert, 40, is one of the exceptional young managers who have risen to the next tier of the hierarchy below Smith, becoming conspicuous candidates for the top two jobs in the future. This tier was reorganized and shuffled in November, putting strong men in weak spots and rounding out their experience. Seelert was nicknamed by colleagues "the trainee chairman" soon after he arrived at General Foods from the Harvard Business School in 1966. He is everybody's all-American—boyish, attractive, amusing, popular, smart, and lucky. He had the good fortune to join the team marketing Tang just after the Apollo astronauts adopted it as their space beverage. General Foods sponsored TV coverage of Apollo missions, Tang sales doubled in two years, and Seelert's career took off at about the same pace. Having run the coffee division successfully, he has now been moved to another group that had less success lately in pushing its basic products. His "packaged convenience foods" division sells items such as desserts, stuffings, Minute rice, and Birds Eye frozen vegetables.

General Foods observers name Ervin R. Shames, a 42-year-old who also came to the company from the Harvard Business School, as the other heir apparent to watch. A slight, scholarly-looking Iowan, Shames carries the considerable burden of running General Foods' international operations, with all the headaches of dealing with difficult governments, careening foreign currencies, and problems in distant places. He also has some opportunities. The consumption of coffee and fruit-flavored drinks is growing faster overseas than in the U.S., for instance.

IF SYMBOLS HELP, then General Foods will get help this spring when it moves into its new headquarters in Rye, New York. The \$50-million building was designed by Kevin Roche John Dinkeloo Associates. With its gleaming white aluminum exterior and massive arms stretching out from a huge domed atrium in the center, the building looks like some creation for *Star Wars*. It could become quite a symbol, or quite a white elephant.

■ Executives pondering the merits of the revisionist line on the all-purpose manager—the increasingly popular notion that managers do best what they know best and should therefore stick to it—will want to take note of General Foods' new growth strategy. Critics are still easy to find, but the farsighted Warren Buffett is evidently not among them. Buffett is hanging on to his 2.6 million shares and is now collecting \$2.40 a share in annual dividends, up 20 cents from last year. ■

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DEALS OF THE YEAR

CHRISTINA
ONASSIS
RIDES OUT
THE TANKER
STORMS

MCI VS. BELL;
BAUSCH & LOMB
VS. ITSELF

THE NEW
TECHNOLOGY
OF THE MIND



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STE 800 SRI ACG
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FORTUNE



The big pen in Roberto Brosan's cover photograph got heavy use in a tumultuous takeover year. A directory of the 50 biggest deals of 1982 starts on page 48.

SHIPPING

Christina Onassis Rides Out the Tanker Storms *by David Fairbank White*

40



DIRECTORY

Deals of the Year *by Robert Steyer*

48

PICTURE PORTFOLIO

The Dealmakers

56

HIGH-FLIERS

More Than Cheap Talk Propels MCI *by Brian O'Reilly*

68

POLICY

Has Reagan Hurt the Poor? *by Gurney Breckenfeld*

77

SCIENCE

The New Technology of the Mind *by Tom Alexander*

82

TRANSITIONS

Leasing Leaves the Harbor *by Alexander Stuart*

92

BROKERS

Ball Takes Bache and Runs with It *by Thomas Moore*

97

MANAGEMENT

Bausch & Lomb's Lost Opportunity *by Stratford P. Sherman*

104

4 THE EDITOR'S DESK

6 IN THE NEWS

Intel and IBM strike a deal, Warner Amex draws Drew Lewis, job-hopping from Wells Fargo, Sherry Lansing departs 20th Century-Fox, a three-note ad motif for Nabisco—and more.

13 LETTERS TO FORTUNE

On Citibank's maverick, strategists under fire, our new look, and other matters.

25 THE WASHINGTON CONNECTION

Reagan's lobbyist to business, the EPA gets tough—and more.

31 FORTUNE FORECAST

How the forecasters could be surprised. Surviving the profit plunge.

35 KEEPING UP

By Daniel Seligman

107 PERSONAL INVESTING

Rival managers for your money. By John J. Curran

113 ON YOUR OWN TIME

Fly-fishing in the Yucatán. By Leonard J. Clark Jr.

117 BOOKS AND IDEAS

Subversive big business. By Herbert Stein

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CHRISTINA ONASSIS RIDES OUT THE TANKER STORMS

SHIPPING/DAVID FAIRBANK WHITE

■ Not long past noon on March 15, 1975, upon the death of her father in Paris, a spoiled young jet-setter named Christina Onassis became one of shipping's most important executives in the early days of the industry's longest and deepest recession. She has sent many of her father's proud vessels to the scrapyard since then, but her fleet is emerging in surprisingly good shape, more durable and competitive than many of its rivals.

She is far from being the richest woman in the world, as she is sometimes billed, but she's not headed for the poorhouse either. Olympic Maritime S.A., the company that Aristotle Socrates Onassis built, has a solid core of ten tankers on long-term charter to major oil companies. They throw off a reliable stream of cash flow—the envy of weaker companies—and Olympic has used the cash plus new debt to

modernize and upgrade its fleet, something few competitors have been willing and able to do. The Onassis fleet has shrunk from 56 ships in 1975 to 38 today, of which 14 are listed as laid up. Still, Olympic ranks as the world's eighth-largest independent tanker owner (see table, page 45).

OLYMPIC MARITIME has also put together a new management team in which Christina plays a somewhat murky role. Luckily for her and the company, Onassis was survived by some able longtime associates, in particular Constantine Gratsos, who died in 1981 at age 79. In 1977 Gratsos, Christina, and the others tapped one of the most respected men in shipping for the post of managing director. He is Louis Anderson, 53, a Greek-American who made his name as Exxon's head of tanker chartering. "He's mercurial—he's a Greek," says a former colleague. "He has an entrepreneurial side and likes to horse-trade. He ran his end of the business"—the largest chartering operation in the world—"the way the Greeks ran theirs."

Anderson and other Olympic execu-

tives are well qualified to give Christina a postgraduate course in shipping, continuing a rather haphazard education that briefly included Miss Hewitt's Classes in New York. While her father was still alive she put in stints as a trainee in his offices around the world and at shipping firms in New York. Though impulsive in romance—at 32 she has gone through three marriages and a succession of suitors—she is cautious in business.

The organizational structure is curious. Like most shipping firms, Onassis's was a skein of interlocking corporations and holding companies registered in many countries. He left Christina a 48% interest and an annual allowance of \$250,000 (indexed for inflation), but vested control of the business in a foundation named after his son, Alexander, killed in a 1973 airplane crash. Christina sits on the foun-

The last voyage for this freighter (right) ends on Godani beach in Pakistan, where native workers help haul the vessel out of the water. The hulk will be cut up and sold for scrap. Some 27 million tons of shipping disappeared in the first 11 months of 1982. Olympic Maritime, the Onassis company, has broken up 11 supertankers since 1975.

Chryso Mou, "my golden one," is the affectionate nickname that Aristotle Onassis gave his daughter, Christina. He left her 48% of his shipping interests.



dation's board with Olympic executives, Onassis relatives, and her father's cronies. Ari's widow, Jacqueline, who settled with his estate in 1977 for \$26 million, has no share in the business and no role in the foundation.

Theoretically, the board members could outvote Christina, but she is the only one among them who is a stockholder in the Onassis enterprises, and apparently they defer to her wishes as loyally as they did to Ari's. Aides and employees speak of her much as they did of her father, with a mixture of awe and fear. When she is off playing in St. Moritz or Paris or London, Anderson keeps in close touch.

By the time Onassis died of a gradual paralysis called myasthenia gravis, compounded by pneumonia, his fleet was already in rough seas. For most of his career Onassis was, despite his flamboyance, a conservative shipowner who chartered vessels long term to oil companies before the ships came down the ways. But when inflation soured the take on some long-term charters, he committed his free tankers to the spot market in shipping's greatest year, 1973. A very large crude carrier (VLCC) of 200,000 tons or more, which costs perhaps \$50 million to build, could bring in over \$15 million on one trip from the Persian Gulf to Rotterdam.

ARI IS SAID to have pocketed \$100 million in profits that year and plunged by ordering six more supertankers worth \$360 million from French and Japanese yards. Other shippers were gambling just as recklessly (see "Betting \$20 Billion in the Tanker Game," *FOR-TUNE*, August 1974). But soaring oil prices and falling consumption knocked the shipping industry into a depression from which it still hasn't recovered.

Today, nine punishing years later, more than a third of the world's 347 million deadweight tons of tanker capacity is unwanted excess. From Scandinavia to Greece to Southeast Asia, bays and fjords are filling up as ships come off time charter and fall into lay-up. Nearly 17% of the tanker supply, or 58 million tons, is now mothballed.

If owners care to gamble, they can pay the \$4 million a year that it costs to keep a supertanker cruising in search of cargo. At any given time as



Little more than a propeller remains (right) of a ship being cut up at a Taiwan scrapyard, where the workman above wields an acetylene torch. It takes about six weeks for a supertanker that may have cost \$50 million to be reduced to \$3 million of scrap.



PHOTOGRAPHS BY TOM SENNETT



Overlooking the Monte Carlo harbor, this graceful building (top) is where Olympic Maritime is run. Ari Onassis (above) kept an apartment on the top floor. Now it is Christine's.

many as 40 supertankers are waiting in the Persian Gulf. Other hobo ships hover off Venezuela, off Nigeria, off the big Caribbean refineries that feed the U.S. market. Some are being used as floating tank farms. Dry-cargo ships are faring little better, with 21 million tons, or 10% of total capacity, laid up.

Most threatened of all by changing times are the gargantuan VLCCs, which have passed their day of greatest use. Only smaller tankers with shallow drafts are able to service many of the so-called local oil fields, such as the North Sea, Mexico's Bay of Campeche, and offshore California. "It seems that everybody is finding oil at their doorstep," says C. Y. Chen, a leading shipowner. Shipments to the U.S. from Persian Gulf states have fallen by half in five years. Much of this oil now moves through three pipelines to the Mediterranean or through the Suez Canal, reopened in 1975 for tankers of up to 150,000 tons.

Some great fleets are sailing toward

oblivion. Daniel K. Ludwig, an American shipowner once in the Onassis league, has let his 54 ships dwindle to 17 since 1975. Ari's special rival, the Niarchos Group, owns only 33 ships, less than half the peak number. Neither Ludwig nor the Niarchos Group is among today's top ten independent tanker owners. In recent years the last melancholy journey for many behemoths of the seas—as well as older, smaller vessels that aren't fuel efficient—has been to scrapyards in Taiwan, Pakistan, and elsewhere.

Olympic Maritime seems to have come through these wrenching times in better shape than others. Sniffing the changing winds—he was always good at that—Onassis started the turnaround in his last year, reportedly paying a painful \$17 million to cancel contracts for three of the six supertankers he had impulsively ordered. The swing back to more customary Onassis conservatism continued under Christina. The other three big ships were too far along to be stopped, but

after the 270,000-ton *Olympic Breeze* slid into the gentle waters off Yokohama in 1976, it was chartered to Mobil Oil. The rate was so low it would have made Ari whip out his large handkerchief and wipe his brow—a gesture he was famous for—but at least the charter covered operating costs.

THE SECOND of the new ships, the \$35-million *Olympic Bravery*, ran aground on its maiden voyage, but Ari's heirs reportedly recovered \$50 million from insurance. They next found a charter for the *Alexander S. Onassis*, the last of the big burdens coming down the slips.

In an imaginative deal, Olympic then bought a new VLCC from Ludwig for \$26.5 million, naming it the *Aristotle S. Onassis*, and paid Texaco \$21 million for two old and inefficient VLCCs, which soon went to the knackers. In the final step, Texaco signed a long-term charter for both the *Alexander* and the *Aristotle*. In essence, Olympic took a loss up front in return for prof-

its down the road, while Texaco shed the operating costs of two fuel-guzzling old tankers.

ANDERSON, presumably with Christina's blessings, has been brutal in scrapping losers. Eleven supertankers have gone to the junkyard, six of them in the past two years. Four more are laid up and may not have long to live. Meanwhile, maritime sources say that Olympic has bought four additional dry-cargo ships—for a total of 15—and five fuel-efficient medium tankers, ranging from 82,000 to 113,000 tons, a handy size for the Bay of Campeche or the Suez run. Two of the new cargo ships (and two older ones) are listed as being laid up, but the new tankers are paying off. Three are on charter to Shell and the other two, just off charter to Pemex, the Mexican oil company, are active in the spot market.

Just how much money this secretive company earns overall requires some educated guesswork. But the striking fact that emerges, after considerable allowance for error, is that the fabled Onassis empire is actually small potatoes among the world's great enterprises. Olympic may be earning \$15 million to \$20 million a year on a net worth of no more than \$160 million.

The most important earners are the six VLCCs on charter to oil companies. Some of the charters were signed at low rates, but the six together, according to estimates by experienced tanker brokers and owners, are probably bringing home operating profits of some \$25 million a year. Seven smaller tankers should be chipping in \$4 million, and the 11 dry-cargo vessels still plying the seas \$3 million.

Mothball charges on the 14 vessels that have been laid up could total some \$2 million a year, but the big expense is the cost of debt. Like real estate operators, shipowners are heavily leveraged. Luckily for journalists, bankers, and insurance companies, maritime authorities require reasonably accurate reporting of the debt a ship is carrying, along with its cargo.

After a search through registries from Piraeus to Panama, the total debt FORTUNE came up with for Olympic was at least \$130 million. Weighing the value of the long-term charters, shipbrokers say the Olympic tonnage is worth around \$200 million. We tried these numbers on Lester D. Anderson

Jr., vice president for ship lending at Chemical Bank, which doesn't have Olympic as a customer. "Is it a balance that one as a lender would create right now?" he asks. "I don't think so. But being in existence, would it be a situation where you felt compelled to bail out? I don't think so either. It's not a buy or a sell but a hold."

Some \$86 million of the outstanding debt is held by Citibank. Back in the

sizable asset is Olympic Tower, a Fifth Avenue skyscraper in Manhattan that now looks like one of Ari's more fruitful speculations. Its value has doubled during the New York office boom. More than half of it has been sold off as high-priced condominiums, but the Onassis share of what's left may be worth \$40 million.

Much depends on when shipping emerges from depression. If the scrap-

Tops in tankers

Owners	Carrying capacity*	Total tankers	VLCCs	VLCCs on long charter
Y.K. Pao	10.3	58	37	25
Japan Line	5.8	28	22	7
C.Y. Tung	5.6	41	18	11
Nippon Yusen Kaisha	5.3	45	14	5
Bergesen	5.2	25	14	6
A.P. Møller	4.5	31	11	1
Overseas Shiphholding	4.4	42	8	8
Olympic Maritime (Onassis)	3.6	26	10	6
Kawasaki Kisen	3.1	29	6	1
Livanos Group	2.8	13	8	0

*Millions of tons Source: Drewry Shipping Consultants and Johan G. Olsen, shipbrokers

1950s, Walter Wriston was a loan officer in Citibank's shipping department and financed Ari's construction of what was then the world's biggest supertanker. As Citicorp's chairman, he keeps in his office a scale model of an Onassis ship. Most of the rest of the debt is owed to Britain's Midland Bank, which is in for \$27 million.

The bulk of the \$130-million debt is in demand notes, callable at any time. Floating rates on such loans to shipowners have been running around 14%. Allowing for repayment on other, more conventional mortgages, FORTUNE estimates annual debt-service charges of about \$20 million.

There are plenty of other assets out there to help meet the bills. Ari always kept healthy cash reserves; after some tedious arithmetic, FORTUNE guessed that they totaled \$50 million when he died (see "The Reality Behind the Onassis Myth," October 1975). Assuming those reserves are still around and sensibly invested, they're bringing in perhaps \$6 million a year. Another

page of vessels continues at the present rate and world oil consumption stays steady, the tanker market should be back in balance by 1987. Olympic's big moneymakers will be coming off charter as the decade proceeds. Its net worth could soar or shrink, depending on the timing of the recovery.

■ World trade doesn't depend, of course, on the success or failure of Olympic Maritime. It isn't big or important enough to get anywhere near FORTUNE's list of the largest transportation companies. But all of us must gamble in small ways or large and so are fascinated by high rollers. Ari was one and his daughter looks like another. One of Ari's oldest associates, recently retired, predicts: "She'll stay in shipping." She named her two newest and proudest vessels for her dead brother and dead father. She would probably sell her islands, her yacht, even her Saint Laurents and Givenchys before sending such ships to the beaches of Pakistan. ■

There's plenty of left left in the Onassis fleet. Olympic Maritime weighs in as the world's eighth-largest independent tanker owner, measured by deadweight tonnage. Exxon owns the biggest tanker fleet of all, more than 150 ships, but major oil companies don't risk a complete cutoff of cargoes, as the independent operators do. VLCCs, supertankers of 200,000 tons or more, on charters of a year or more provide a stream of assured revenues. Overseas Shiphholding, the largest American independent, does well in this respect. It has eight out of eight VLCCs on long charters.

DEALS OF THE YEAR

■ Measured in dollars, the 50 biggest transactions of 1982 did not quite match the previous year's: \$48.2 billion in total value, compared with \$49.9 billion in 1981. But tumultuous takeovers made 1982 as hostile a year as its predecessor. Pac-Man—in which the prey tries to devour the hunter—became as familiar in the boardroom as in video game arcades.



Financial intermediaries prospered amid the combat. They earned \$220.5 million for engineering 33 mergers and acquisitions and for underwriting 17 debt and equity offerings, collecting a median fee of \$3.8 million, compared with \$2.5 million in 1981. First Boston finished first among investment bankers in billing clients for mergers and acquisitions; it collected \$38.4 million. Goldman Sachs was second with \$34.9 million.

The notes on page 52 explain which deals qualify for FORTUNE's annual directory of the biggest transactions. Some big ones, such as Xerox's \$1.6-billion purchase of Crum & Forster, did not make the list because they have been delayed by regulatory agencies. The most famous, or notorious, deal of 1982 was the four-cornered fight among Bendix, Martin Marietta, Allied, and United Technologies, so complicated that it made the top 50 three times. The \$1.8 billion that Allied paid for Bendix was the fourth-largest amount spent on a single deal. Before it could go through, tender offers by Bendix and Martin Marietta for each other (No. 11 and No. 19) had to be untangled.

Public dismay over the Allied-Bendix melee led to an outcry for more federal legislation to control mergers. Editorial pages resounded with concern, although no compelling argument, that such battles damage the economy. The furor obscured other developments in the mergers and acquisitions game, including the disappearance of a phenomenon that had many Americans wringing

their hands the year before: the foreign takeover of U.S. companies. In 1981 a dozen top deals were foreign acquisitions. But as the dollar strengthened and U.S. companies became more expensive, foreign shoppers lost interest. Only one overseas consumer made the list in 1982. British financier Sir James Goldsmith completed his purchase of Diamond International (No. 50).

OIL AND GAS DEALS accounted for the most acquisitions (seven), but played a smaller role than in 1981, when they resulted in 13 purchases. The largest 1982 deal, moreover, began in 1981 when Mobil tried to take over Marathon Oil and U.S. Steel entered as a white knight.

Companies such as Occidental Petroleum, which bought Cities Service (No. 2), and Du Pont, whose 1981 purchase of Conoco was the largest in U.S. history, are now shedding assets to help pay the cost. Although natural resource deals are less attractive than they were in 1981, asset selling has created a sub-trend as smaller companies pick up fossil fuel morsels cast aside by the giants. Petro-Lewis, a rapidly expanding Denver-based oil and gas exploration company, made the list twice. It purchased some of Conoco's properties (No. 26), as well as some owned by Placid Oil and the Hunt family (No. 49).

Divestitures are rising throughout industry and for a variety of reasons: debt reduction, changes in corporate strategy, and de-

fense against takeovers. "Divestitures are no longer just kicking out turkeys," says Stephen Friedman, a partner in Goldman Sachs. "There is no stigma to selling an attractive division if you have a better use for the funds."

Last year's nimblest divestiture was Brunswick's selling of its Sherwood Medical Group to American Home Products (No. 46). Brunswick, trying to avoid a takeover by Whittaker, made an arrangement by which American Home bought two-thirds of Brunswick's common stock and then swapped the securities for Sherwood, the "crown jewel" that had caught Whittaker's eye.

Forecasting what will happen in 1983, merger specialists say that 1982 may have marked a high (or low) point in unfriendly takeover efforts. "Hostile transactions have become accepted strategy, but the Bendix affair had so many convoluted maneuvers that boards of directors are likely to be more cautious this year," says W. Richard Bingham, managing director of Lehman Brothers Kuhn Loeb. More important, because of higher stock prices predators will find fewer undervalued companies to pounce upon.

The experts anticipate fewer multibillion-dollar blockbusters and they doubt aggregate values of the top 50 will reach 1981's heights. Divestitures for asset redeployment will increase, the experts say, and so will the number of leveraged buyouts and the inclination of financial service companies, insurance firms, and banks to combine.

BIGGEST DEALS OF 1982

☐ MERGERS AND ACQUISITIONS

☐ DEBT AND EQUITY OFFERINGS

Rank ▼	Value of deal (000) ▼	Percent of book value ▼	Transaction ▼	Companies ▼	Financial intermediaries ▼	Fee (000) ▼	Fee as percent of deal ▼
1	U.S. STEEL, steel, acquires MARATHON OIL, oil and gas						
	\$5,964,073	289%	Acquisition for cash and notes, 3/11	U.S. Steel	Goldman Sachs	\$10,000	.17%
				Marathon Oil	First Boston	\$17,400	.29%
2	OCCIDENTAL PETROLEUM, oil and gas, acquires CITIES SERVICE, oil and gas						
	\$4,024,877	196%	Acquisition for cash, notes, and preferred stock, 12/3	Occidental Petroleum	Goldman Sachs	\$5,000	.12%
				Cities Services	Donaldson Lufkin & Jenrette	\$1,000	.02%
					First Boston	\$6,063	.15%
					Lehman Brothers Kuhn Loeb	\$6,063	.15%
3	CONNECTICUT GENERAL, insurance, merges with INA, insurance						
	\$1,936,488 ¹	93%	Merger by exchange of common stock to form CIGNA, 3/31	Connecticut General	Goldman Sachs	\$2,500	.13%
				INA	Lazard Frères	\$1,000	.05%
					Goldman Sachs	\$2,500	.13%
					Lehman Brothers Kuhn Loeb	\$1,000	.05%
4	ALLIED, oil, gas, and chemicals, acquires BENDIX, automotive products						
	\$1,815,500*	123%*	Acquisition for preferred and common stock and notes ²	Allied	Lehman Brothers Kuhn Loeb	\$5,000	.28%*
				Bendix	First Boston	\$2,750	.15%*
5	AMERICAN GENERAL, insurance, acquires NLT, insurance						
	\$1,538,367	121%	Acquisition of 91.5% for cash, notes, preferred stock, and convertible debentures, 11/4 ³	American General	First Boston	\$5,000	.33%
				NLT	Morgan Stanley	\$5,700	.37%
6	FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures						
	\$1,500,000		Offering of 15% debentures due 1983, 7/12	Federal National Mortgage Association	Various dealers	\$1,364	.09%
7	R.J. REYNOLDS, tobacco and food products, acquires HEUBLEIN, distilling						
	\$1,367,440	222%	Acquisition for cash, common and preferred stock, 10/12	R.J. Reynolds	Dillon Read	\$2,800	.20%
				Heublein	Goldman Sachs	\$4,600	.34%
8	NORFOLK & WESTERN RAILWAY, railroad, merges with SOUTHERN RAILWAY, railroad						
	\$1,357,898 ⁴	93%	Merger by exchange of common stock to form Norfolk Southern Corp., 6/1	Norfolk & Western	Dillon Read	\$550	.04%
				Southern	Morgan Stanley	\$750	.06%
9	UNION PACIFIC, oil, gas, and railroad, acquires MISSOURI PACIFIC, railroad						
	\$1,170,113	103%	Acquisition for common and preferred stock, 12/22	Union Pacific	First Boston	\$1,200	.10%
				Missouri Pacific	Printon Kane Research	\$350	.03%
					Dillon Read	\$450	.04%
10	BALDWIN-UNITED, financial services, acquires MGIC INVESTMENT, insurance and real estate						
	\$1,160,885	215%	Acquisition of 98% for cash, 3/9 ⁵	Baldwin-United	Merrill Lynch White Weld	NA	NA
				MGIC Investment	MacDonald & Co.	\$1,000 ⁶	.09%
					Goldman Sachs	\$2,947	.25%
11	BENDIX, automotive products, makes tender offer for MARTIN MARIETTA, aerospace systems						
	\$1,149,600	142%	Cash tender for 67%, 9/20 ^{7,8}	Bendix	Salomon Brothers	\$2,994	.26%
					First Boston	\$2,750	.24%
				Martin Marietta	Kidder Peabody	See footnote ⁹	
12	AMERICAN TELEPHONE & TELEGRAPH, telecommunications, sells stock						
	\$1,062,000	87%	Offering of 17.7 million shares of common stock at \$60, 12/1	AT&T	Morgan Stanley*, Blyth Eastman		
					Paine Webber, First Boston,	\$23,895	2.3%
					Merrill Lynch White Weld,		
					Salomon Brothers		
13	SMITHKLINE, pharmaceuticals, acquires BECKMAN INSTRUMENTS, medical instruments						
	\$1,009,927	310%	Acquisition for common stock to form SmithKline Beckman, 3/4	SmithKline	Merrill Lynch White Weld	\$1,500	.15%
				Beckman Instruments	Blyth Eastman Paine Webber	\$300	.03%
14	FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures						
	\$1,000,000		Offering of 15.05% debentures due 1984, 1/11	Federal National Mortgage Association	Various dealers	\$1,380	.14%

NA Not available. *FORTUNE estimate. *Lead manager. ¹Valued as if INA were the acquired firm. ²In acquiring Bendix, Allied also gets 39% of Martin Marietta common stock. ³American General had previously purchased 6.5%. ⁴Valued as if Southern Railway were the acquired firm. ⁵Baldwin-United had previously purchased 2%. ⁶Fee in litigation. ⁷Bendix had previously purchased 5%. ⁸In being acquired by Allied, Bendix swapped 19.1 million shares of its holding of Martin Marietta common stock for Martin Marietta's holding of 11.9 million shares of Bendix common. ⁹Fee included in Martin Marietta's cash tender for Bendix (Deal No. 19).

BIGGEST DEALS OF 1982

Rank	Value of deal (\$000)	Percent of book value	Transaction	Companies	Financial Intermediaries	Fee (\$000)	Fee as percent of deal
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$1,000,000		Offering of 15.65% debentures due 1985, 2/10	Federal National Mortgage Association	Various dealers	\$1,708	.17%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$1,000,000		Offering of 14.9% debentures due 1985, 3/10	Federal National Mortgage Association	Various dealers	\$1,575	.16%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$1,000,000		Offering of 15% debentures due 1985, 4/12	Federal National Mortgage Association	Various dealers	\$1,402	.14%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$1,000,000		Offering of 14.63% debentures due 1986, 6/10	Federal National Mortgage Association	Various dealers	\$1,680	.17%
19	MARTIN MARIETTA, aerospace systems, makes tender offer for BENDIX, automotive products						
	\$892,500	119%	Cash tender for 50%, 10/1 ¹⁰	Martin Marietta	Kidder Peabody	\$5,900*	.66%*
				Bendix	Salomon Brothers First Boston	See footnote ¹¹ See footnote ¹¹	
20	FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures						
	\$800,000		Offering of 14.45% debentures due 1987, 8/13	Federal National Mortgage Association	Various dealers	\$1,600	.20%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$800,000		Offering of 11.35% debentures due 1984, 10/12	Federal National Mortgage Association	Various dealers	\$762	.10%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$800,000		Offering of 10.85% debentures due 1987, 11/12	Federal National Mortgage Association	Various dealers	\$1,600	.20%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$800,000		Offering of 10.95% debentures due 1986, 12/10	Federal National Mortgage Association	Various dealers	\$1,330	.17%
24	UNION TEXAS PETROLEUM [Allied], oil and gas, and FLORIDA EXPLORATION [Continental Group], oil and gas, acquire SUPRON ENERGY, oil and gas						
	\$764,545	849%	Acquisition for cash, 4/30	Union Texas Florida Exploration	First Boston First Boston Lazard Frères Donaldson Lufkin & Jenrette	\$1,400 \$600 \$300 \$300	.18% .08% .04% .04%
				Supron Energy	Kidder Peabody	\$3,563	.47%
25	COCA-COLA, soft drinks, acquires COLUMBIA PICTURES, motion pictures						
	\$748,192	408%	Acquisition for cash and common stock, 6/21	Coca-Cola	Morgan Stanley	\$750	.10%
				Columbia Pictures	Allen & Co.	\$3,500	.47%
26	PETRO-LEWIS, oil and gas, acquires some oil and gas properties of CONOCO [Du Pont], oil and gas						
	\$715,789	NA	Acquisition for cash	Petro-Lewis	None	—	—
				Conoco	None	—	—
27	AVON PRODUCTS, cosmetics and fragrances, acquires MALLINCKRODT, health care products and chemicals						
	\$697,342	239%	Acquisition for cash and common stock, 3/8	Avon Products	Blyth Eastman Paine Webber	\$2,500	.36%
				Mallinckrodt	Morgan Stanley	\$3,500	.50%
28	BEATRICE FOODS, food products, acquires beverages division of NORTHWEST INDUSTRIES, metal manufacturing						
	\$600,000	236%	Acquisition for cash, 1/14	Beatrice Foods	Lazard Frères	NA	NA
				Northwest Industries	Salomon Brothers Goldman Sachs	NA NA	NA NA
29	MORTON-NORWICH PRODUCTS, salt and household products, acquires THIOKOL, chemicals						
	\$573,010	217%	Acquisition for cash and common stock to form Morton Thiokol, 9/24	Morton-Norwich	Goldman Sachs Salomon Brothers	\$1,500 \$1,000	.26% .17%
				Thiokol	Goldman Sachs Lazard Frères	\$1,500 \$600	.26% .10%

NA Not available. *FORTUNE estimate. ¹⁰In being acquired by Allied, Bendix swapped 19.1 million shares of its holding of Martin Marietta common stock for Martin Marietta's holding of 11.9 million shares of Bendix common. ¹¹Fee included in Bendix cash tender for Martin Marietta (Deal No. 11).

Rank ▼	Value of deal (\$000) ▼	Percent of book value ▼	Transaction ▼	Companies ▼	Financial intermediaries ▼	Fee (\$000) ▼	Fee as percent of deal ▼
30 ANHEUSER-BUSCH, beer, acquires CAMPBELL TAGGART, bakery products							
	\$570,133	251%	Acquisition for cash and preferred stock, 11/2	Anheuser-Busch	Dillon Read	\$1,500	.26%
				Campbell Taggart	Bear Stearns	\$2,850	.50%
31 RELIANCE FINANCIAL GROUP (owned by the Saul P. Steinberg family), insurance and computer leasing, acquires RELIANCE GROUP INC., insurance, and LEASCO, computer leasing							
	\$526,066	195%	Acquisition for preferred stock, cash, and debentures, 1/8 ¹²	Reliance Financial	None	—	—
				Reliance Group	Bear Stearns	\$850	.16%
				Leasco	Bear Stearns	\$150	.03%
32 PRUDENTIAL, insurance, acquires interest in hotel-office complex owned jointly by MILLER-DAVIS CO., real estate, and URBAN INVESTMENT & DEVELOPMENT CO. (Aetna Life & Casualty), real estate							
	\$514,258	NA	Acquisition of 80% for cash and existing mortgages, 1/6	Prudential	NA	NA	NA
				Miller-Davis Co.	None	—	—
				Urban Investment	None	—	—
33 STROH BREWERY, beer, acquires JOS. SCHLITZ BREWING, beer							
	\$500,837	159%	Acquisition for cash, 6/10	Stroh	Salomon Brothers	\$2,300	.46%
				Jos. Schlitz	Goldman Sachs	\$1,477	.29%
34 FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$500,000		Offering of 14.3% debentures due 1987, 5/14	Federal National Mortgage Association	Various dealers	\$1,000	.20%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$500,000		Offering of 15.25% debentures due 1987, 7/12	Federal National Mortgage Association	Various dealers	\$976	.20%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$500,000		Offering of 14.3% debentures due 1986, 7/27	Federal National Mortgage Association	Various dealers	\$875	.18%
MOBIL ROCKY MOUNTAIN (Mobil Oil), oil and gas, acquires interest in some holdings of ANSCHUTZ CORP. (owned by Phillip F. Anschutz), oil, gas, and minerals							
	\$500,000	NA	Acquisition for cash and notes, 8/11	Mobil	NA	NA	NA
				Anschutz Corp.	None	—	—
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$500,000		Offering of 13.25% debentures due 1986, 9/10	Federal National Mortgage Association	Various dealers	\$858	.17%
FEDERAL NATIONAL MORTGAGE ASSOCIATION, mortgage holder, sells debentures							
	\$500,000		Offering of 11% debentures due 1988, 10/27	Federal National Mortgage Association	Various dealers	\$1,125	.23%
40 OUTDOOR ADVERTISING ASSOCIATES (limited partnership), billboard advertising, acquires some assets of FOSTER & KLEISER (Metromedia), billboard advertising							
	\$485,000	NA	Acquisition for cash and promissory note, 11/26	Outdoor Advertising Assoc.	Bear Stearns	\$9,000*	1.9%*
					Karl Eller	\$250	.05%
				Foster & Kleiser	Bear Stearns	\$250	.05%
41 WARNER-LAMBERT, health care products, acquires IMED, medical instruments							
	\$465,000	1284%	Acquisition for cash, 8/20	Warner-Lambert	First Boston	\$2,250*	.48%*
				IMED	Lehman Brothers Kuhn Loeb	\$3,700*	.80%*
42 AMERICAN TELEPHONE & TELEGRAPH, telecommunications, sells stock							
	\$463,800	84%	Offering of 8 million shares of common stock at \$58, 8/25	AT&T	Morgan Stanley*, First Boston, Goldman Sachs, Merrill Lynch White Weld, Salomon Brothers	\$6,360	1.4%
43 AETNA LIFE & CASUALTY, financial services, acquires GEOSOURCE, oil exploration equipment							
	\$446,087	237%	Acquisition of 71% for common stock, 7/1 ¹³	Aetna	Morgan Stanley	\$2,965	.66%
				Geosource	Merrill Lynch White Weld	\$1,500	.34%

NA Not available. *FORTUNE estimate. *Lead manager. ¹²The Steinberg family had previously purchased 51% of Leasco common stock and 12% of Reliance Group Inc. common stock. Leasco had previously purchased 24% of Reliance Group Inc. common stock. ¹³Aetna had previously purchased 29%.

BIGGEST DEALS OF 1982

Rank ▼	Value of deal (000) ▼	Percent of book value ▼	Transaction ▼	Companies ▼	Financial intermediaries ▼	Fee (000) ▼	Fee as percent of deal ▼
44	JAMES RIVER, paper products, acquires some assets of the Dixie-Northern division of AMERICAN CAN, containers and packaging						
	\$432,721	122%	Acquisition for cash and preferred stock, 7/2	James River	Kidder Peabody	\$4,200*	.97%*
				American Can	Morgan Stanley	NA	NA
45	SIGNODE INDUSTRIES (private investors), metal products, acquires SIGNODE CORP., metal products						
	\$430,260	129%	Acquisition for cash (leveraged buyout), 8/30	Signode Industries	Merrill Lynch White Weld	\$4,500	1.1%
				Signode Corp.	Goldman Sachs	\$1,025	.24%
46	AMERICAN HOME PRODUCTS, pharmaceuticals, acquires SHERWOOD MEDICAL GROUP (Brunswick), medical instruments						
	\$425,000	243%	Acquisition for cash of 67% of Brunswick common stock, 2/25, followed by swap of stock for ownership of Sherwood, 3/9	American Home	Goldman Sachs	\$1,333	.31%
				Sherwood Medical	Lehman Brothers Kuhn Loeb	\$1,563	.37%
					Merrill Lynch White Weld	\$1,563	.37%
					Salomon Brothers	\$1,563	.37%
47	COCA-COLA, soft drinks, acquires ASSOCIATED COCA-COLA BOTTLING, soft drinks						
	\$417,549	335%	Acquisition for cash, 7/30	Coca-Cola	Morgan Stanley	\$2,250	.54%
				Associated	None	—	—
48	PACIFIC HOLDING (owned by David Murdock), consumer products and real estate, acquires CANNON MILLS, textiles						
	\$412,748	117%	Acquisition for cash, 3/30	Pacific Holding	None	—	—
				Cannon Mills	Goldman Sachs	\$500	.12%
					Dean Witter Reynolds	\$150	.04%
49	PETRO-LEWIS, oil and gas, acquires some oil and gas properties of PLACID OIL and of Hunt family members, oil and gas						
	\$411,791	NA	Acquisition for cash, 1/1	Petro-Lewis	None	—	—
				Placid Oil, Hunt family	None	—	—
50	GENERAL ORIENTAL (indirectly controlled by Sir James Goldsmith), investments, acquires DIAMOND INTERNATIONAL, forest products						
	\$407,758	130%	Acquisition of 59% for cash, 12/31 ¹⁴	General Oriental	Drexel Burnham Lambert	\$2,500	.61%
				Diamond International	Bear Stearns	\$700	.17%

NA Not available. *FORTUNE estimate. *Lead manager. ¹⁴General Oriental had previously purchased 41%.

EXPLANATORY NOTES

Deals eligible for the list include:

1. U.S. public offerings of securities (except short-term securities) by domestic and foreign corporations issued under a single prospectus or offering circular.
2. Cash tender offers by domestic corporations or by foreign corporations tendering in the U.S., including those of companies buying in their own stock.
3. Mergers or acquisitions in which the buyer and/or seller is a U.S. company (or part of one). To be eligible, offerings must be effective in 1982 and tender offers must have expired during the year. Mergers and acquisitions are eligible if legally closed during the year or, when not legally closed, if the prospective buyer has paid a portion of the purchase price in cash during the year.

The list excludes short-term financings and financings other than public offerings—such as bank borrowings and private placements.

When two companies merge through an exchange of stock to form a new company, the company whose stockholders received the largest share of the new company is treated as the buyer. When the buyer or seller is a subsidiary, the parent's name is given in brackets.

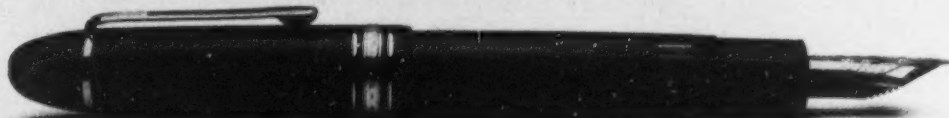
Value of deal Amounts for cash offerings are the total amounts raised; for tenders, the total amount paid. All securities issued in acquisitions or mergers are valued at the market price on the date of closing. If not closed, valuations are for December 17 (and those of new securities are estimated). Exception: when a new company is formed by merger, only those shares issued to stockholders of the smaller company are valued.

Percent of book value Book value calculations indicate the price paid (or amount of equity capital raised) per share as a percentage of the shareholders' equity per share of the acquired company (or issuer) at the end of the last quarter preceding the transaction.

Transaction Dates under this heading are effective dates for offerings, expiration dates for tenders, and closing dates for acquisitions and mergers. When no date is indicated, the deal has not closed.

Financial intermediaries For underwritten public offerings, the co-managers are listed and the lead manager is indicated by an asterisk. In the case of acquisitions and mergers, the intermediaries are typically investment banking firms that assisted in the transaction.

Fee The figures represent the amounts charged by the financial intermediaries assisting in the deals. In underwritings, part of the fee is paid to other members of the underwriting syndicate or to dealers other than the co-managers.



BALL TAKES BACHE AND RUNS WITH IT

■ “Average sucks,” asserted George L. Ball, the 44-year-old president and new chief executive of Prudential-Bache Securities, introducing himself to his top 61 producers at a get-together last November in Phoenix. “Like Zeus on Mount Olympus, we’re going to stand above the others.”

Olympian feats seemed an unusually tall order for a firm that had fallen from second largest on Wall Street to sixth in the last decade and that had one of the highest turnover rates of account executives and lowest productivity rates per employee among its major competitors. For years the firm had been demoralized by a meddlesome executive committee’s politicized decision-making and a management obsessed with cutting costs and fending off takeover attempts. It had been embarrassed by backing the Hunts in their silver speculation, unnerved by the uneasy merger of Bache Group Inc. with Prudential Insurance Co. of America in June 1981, and shaken by a loss of \$49.4 million in the first half of 1982.

But this group of hard-bitten brokers, accustomed as they were to hubris and hyperbole, laughed only at Ball’s unlikely allusion, not the lofty goal. The bull market that had followed Ball’s July appointment went a long way to turning the firm to profitability in the second half—Prudential-Bache will report an estimated \$10 million in earnings for 1982 on revenues of over \$800 million. More important, Ball’s combination of tough management and charismatic leadership had already made believers of his brokers.

In what one delighted Prudential executive called the First Hundred Days—during which Ball slipped a disc playing squash and had to work several weeks flat on his back—



A ferocious competitor in business, George Ball fights hard on the tennis court too.

the new chief executive blitzkrieged through offices around the country, drumming out the message to account executives in cocktail party pep talks that he wants to build Pru-Bache into "the prototype of the next-generation investment firm."

BALL'S IMMEDIATE MOVES were substantial—and hard-boiled. He fired five top executives and 15 lower-ranking ones. He streamlined the management, setting up eight divisions reporting directly to him. Among those now subordinate to him are Chairman Harry A. Jacobs Jr., 61, and Vice Chairman H. Virgil Sherrill, 62, who used to run the shop. Ball reduced the executive committee to a simple coordinating body and got rid of one of Bache's two boards of directors, arguing that it was superfluous.

In a controversial move, Ball hired away the top research triumvirate from E.F. Hutton Group Inc., where he had been president. Ten out of 29 analysts at Prudential-Bache were purged shortly after. He also instituted a policy requiring a response within 24 hours to proposals or problems raised from below, and created an innovative "partnership bonus plan." If the firm earns at least 15% on its operating equity in any year, he will give back roughly a quarter of those profits to top performers. The scheme overcomes a major handicap: as part of a mutual company, Prudential-Bache has no stock with which to reward high achievers.

Some of Ball's other moves were image building, such as changing the firm's name to Prudential-Bache Securities (at a cost of \$4 million for stationery, forms, and extra advertising expenses). He changed advertising agencies, moving from McCann-Erickson to Kenyon & Eckhardt, and launched an ad campaign stressing the financial strength Prudential brings to Bache and pitching the line that the company is a full-service firm helping people plan for the future rather than simply pick stocks. And he decreed a host of cosmetic changes, from new plants in the lobby of the firm's headquarters at 100 Gold Street in lower Manhattan to linen towels in the executive bathrooms.

As improbable as it may have seemed last summer, Ball's move to Bache has turned the company into a hot firm on the Street. Prudential-Bache executives have been getting many calls from account executives at other firms asking for jobs. Some have gone so far as to stuff their résumés into Ball's mailbox at his suburban New Jersey home.

Even more improbable, however, was Ball's decision to move to Prudential-Bache in the first place. As president of the second-largest retail firm on Wall Street—"When

E.F. Hutton talks, people listen"—he had built one of the most aggressive and productive retail sales forces in the business and was undisputed heir apparent to Chairman Robert Fomon, 58. It was not uncommon to hear insiders remark that George Ball was E.F. Hutton. Moreover, Ball—no kin to the other George Ball, once Under Secretary of State and recently with Lehman Brothers Kuhn Loeb—had been quoted widely in the press deriding the "synergies" that were supposed to emanate from mega-mergers like that between Prudential and Bache.

A slight, intense man with neatly combed red hair, penetrating blue eyes, and a chiseled schoolboy look, Ball has a touch of the missionary about him that makes him seem out of place in the casino atmosphere of the brokerage business. He is an avid tennis player who runs two miles a day to keep in shape and looks like he might fit in cavorting on the beach with the British runners in *Chariots of Fire*. Something is burning inside him and however it manifests itself, whether in his enthusiasm for tennis, the brokerage business, or talking ideas, it is contagious.

Among brokers, Ball has the reputation of being one of them, one of the few top executives who has risen through the retail ranks, who understands their entrepreneurial sensibilities, appreciates their importance as revenue producers, and most amazing of all, enjoys them as people, insecure and motley a bunch as they are. At Hutton he socialized regularly at every level of the organization, making a point to remember each broker's name and often his or her spouse's name as well, sending follow-up notes and gifts. When the news of his defection came out, Hutton brokers were stunned. "It was like reading in the newspapers that the Pope had become a Communist," said one.

According to Fomon, who claims Ball has become a different person since he left for Pru-Bache, his departure was a simple case of impatience. "George is very ambitious and didn't want to wait seven years for my retirement," he says. Infuriated by Ball's wholesale raid on his top research staff and what he labels as Ball's proselytizing of his account executives, Fomon wrote Prudential Chairman Robert Beck, 57, a letter fulminating over Ball's ungentlemanly behavior and charging that the ex-Hutton contingent had "unlawful possession" of confidential lists of institutional clients. Ball has denied the charges, saying only, "Bob's allegations are preposterous and he knows it."

The chairman of Hutton has since assumed not only Ball's title but his media role as leading mega-merger skeptic, reserving his most barbed remarks, of course, for Prudential-Bache and apostate Ball. "Bob Beck

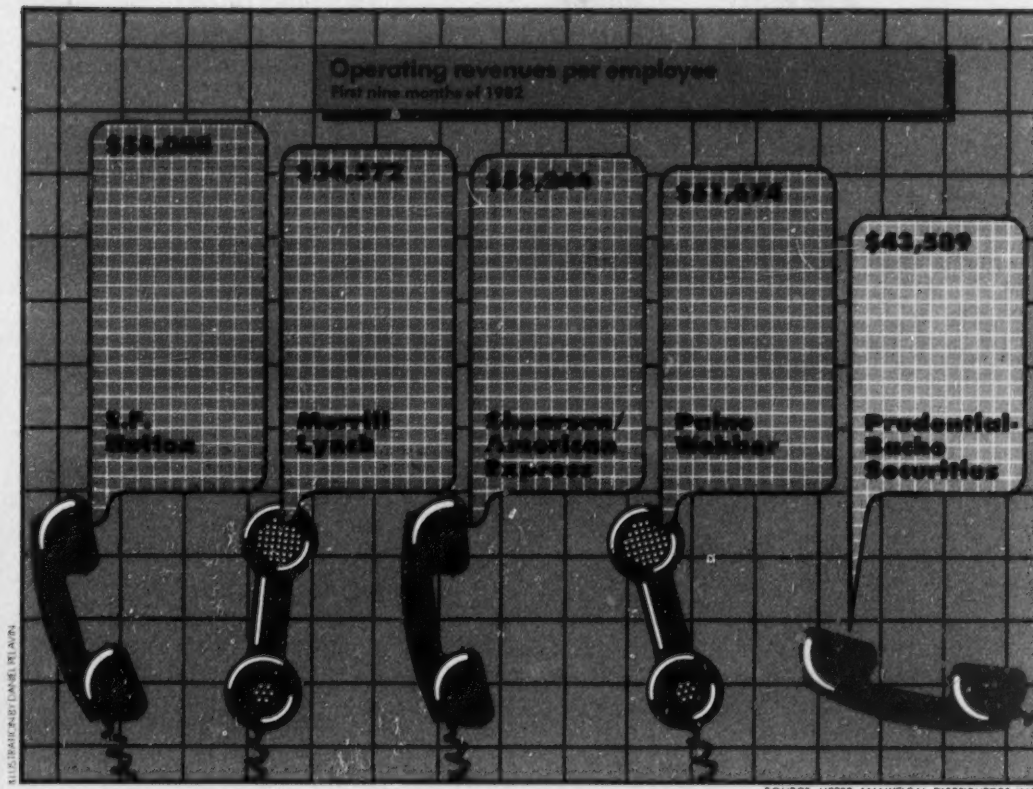
at Prudential must wish he never heard of Bache," says Fomon. "They've got unprofessional account executives and have never known how to make money. Everybody considered Bache the lousiest firm on the Street and that's not just me talking, but George Ball. George ridiculed Bache the most."

Of course, Ball had been watching the combination of deregulation and record interest rates inalterably change the financial marketplace, making it increasingly permissible and tempting for brokerage houses, insurance companies, and banks—not to mention retailers and anybody else with grand financial ambitions—to cross over into each others' game preserves. Hutton did its share of poaching under his management—the most notable example being its innovation of so-called universal life insurance.

But Prudential's offer to Ball proved irresistible—and not mainly because of money. Though he will be getting \$250,000 in salary plus a bonus of one to three times that base, depending on results, Ball says the money isn't that much greater than he would have earned at Hutton. The clincher was that Prudential was willing to throw in operating control of PruCapital, its \$3-billion lending arm, which authorized \$600 million in new loans to small and medium-size businesses in 1982. It will be a springboard for Ball to leap, as he had planned to do at Hutton, into the lending business.

CONCEPTUALLY, Ball's next-generation investment firm rests on three premises: that the broker can be turned into a professional money manager with the help of graduate-level financial training courses and computer technology; that research can play a pivotal rather than a passive role in the selection and marketing of the many new investment products; and that Prudential's resources, in particular its lending and investment-management capabilities, can give the firm extra leverage to catapult itself to the front of the pack—if not in size, then in performance. Not so far down the road he might acquire a consumer bank. "We're not talking about a little S&L, either," says Ball. "We plan to get into banking in an important way."

Ball is finding some synergy after all in Bache's connection with Newark-based Prudential, the nation's largest insurance company, with \$62 billion in assets. For instance, Ball intends to save over \$25 million annually by passing along administrative and investment management functions to Prudential. In addition, Pru-Bache will draw on Prudential's expertise to develop and market new products in such areas as real estate, options, and oil and gas.



SOURCE: UPPER ANALYTICAL DISTRIBUTORS INC.

The Productivity Laggard

Looking at this chart, it is easy to see why productivity is a sore subject at Prudential-Bache Securities. In revenue produced per employee, not including interest income, Pru-Bache comes out last among the five biggest retail brokerage firms that break out figures (Sears' Dean Witter does not). One reason, says Perrin Long, an analyst with Lipper Analytical Distributors, is that Pru-Bache brokers are 25% to 30% less productive than their competitors, a view brokers at other Wall Street firms delight in promulgating. But Pru-Bache President George Ball thinks the people he inherited aren't that bad. Says he, "If other firms stop telling lies about us, we'll stop telling the truth about them."

Whether PruCapital and Pru-Bache will be catalysts for one another remains to be proved. Plans to put brokers into Prudential insurance agencies to share customers and commissions, as Sears Roebuck stations Dean Witter Reynolds brokers in its stores, have stirred about as much enthusiasm among the troops as if New Yorkers had been invited to try the theater in Peoria.

What Ball most likes to conjure up is a vision of Pru-Bache as a sort of avant-garde financial services company, creating new products, services, and strategies, occasionally drawing on Prudential's technicians to work out the mundane details, and then testing them out among its affluent clients. Once proved, the new ideas are passed back to Prudential's 23,000-person sales force to mass-market. "We dream up and design the products," Ball sums up the relationship, "and they put them into place."

Ball must resolve some sticky problems. He wants to hold expenses to the present \$400 million a year while paying bigger salaries to attract and keep good people. He also wants to start new training programs and expand the research staff. Some of the money will be found by firing higher-level—and highly paid—employees who don't meet his standards. "We have to be brutal about getting rid of second-raters," he says, "and then plow their salaries back in."

Prudential expects Pru-Bache to perform at least as well as its other investments, which are estimated to have returned an average 10% in 1982. Based on the \$385 million it paid for Bache, that works out to \$38.5 million a year. While Pru-Bache was lucky to make any money last year, Ball figures he can hit the target return in 1983—and double it in three years. "I would like to think that within a year we will be competitive with anyone else in every respect," he says. "Some things will take longer, but I want to be perfect tomorrow."

THINGS STILL AREN'T MOVING fast enough for him. His engines are over-revving, a trait disruptive to his pitmen who must overhaul the company according to new specs while keeping it running smoothly at the same time. "He's working on so many things at the same time," says Robert Sherman, 45, the executive vice president who heads the retail group, "that sometimes it's hard for us to work on our priorities. Once he slows down, things will be better."

As he wanders restlessly about his new office at 100 Gold Street, looking at joggers setting out across the Brooklyn Bridge and practicing his backhand with a paddle-tennis racket he keeps handy on his desk, it is clear the race he is running is with himself. The

talk on Wall Street is that he would like to succeed Beck as chief executive at Prudential in seven or eight years and from there move on to national politics.

He has heard the rumors and, with a mischievous smile, searches for the right comeback. "Politics is a necessary blot on the face of the universe," he says, twirling his racket in his hand. "But to be nice and perpetually cheery all the time must be the most onerous and laborious responsibility one could put on someone." Two hours later, cheery as a politician, he is telling Newark jokes at a get-acquainted reception for Prudential-Bache brokers in Parsippany, New Jersey. It's a long way to Mount Olympus, but George Ball is picking up speed.

■ The new financial services free-for-all is about as confusing to U.S. investors as Canadian-rules football. That was one of the findings of consumer research conducted by Kenyon & Eckhardt, the advertising agency that created Pru-Bache's "Bring us your future" campaign. K&E also found that to investors, all the players, pedigreed or hybrid, look, sound, and seem to perform about the same. The big firms are all computerized operations with harried brokers who don't have time to listen. The slogan for the 1980s may well be, "When a client talks, his broker had better listen."

NOTE

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Cover 1, p.2, 3, 226-254.
